The New York

Certified Public Accountant

Vol. XII *October • 1941* No. 1

IN THIS ISSUE

Published by

The New York State Society of Certified Public Accountants

Single Copy 25 Cents : Per Annum $3.00

Objects of the Society

"To cultivate, promote and disseminate knowledge and information concerning accountancy and subjects related thereto; to establish and maintain high standards of integrity, honor and character among certified public accountants; to furnish information regarding accountancy and the practice and methods thereof to its members, and to other persons interested therein, and to the general public; to protect the interests of its members and of the general public with respect to the practice of accountancy; to promote reforms in the law; to provide lectures, and to cause the publication of articles, relating to accountancy and the practice and methods thereof; to correspond and hold relations with other organizations of accountants, both within and without the United States of America; to establish and maintain a library, and reading rooms, meeting rooms and social rooms for the use of its members; to promote social intercourse among its own members and between its own members and the members of other organizations of accountants and other persons interested in accountancy or related subjects; and to do any and all things which shall be lawful and appropriate in furtherance of any of the purposes hereinbefore expressed."

—*From the Certificate of Incorporation.*

The New York Certified Public Accountant

VOL. XII *October · 1941* No. 1

Dr. Saue

TABLE OF CONTENTS

Published by

THE NEW YORK STATE SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS
15 E. 41st STREET · NEW YORK

WENTWORTH F. GANTT
Managing Editor

The New York Certified Public Accountant *is published monthly. Copies may be obtained at the office of the Society at twenty-five cents per copy, $3.00 per year. All other communications relating to this publication should be addressed to the Committee on Publications.*

STATE SOCIETY ACTIVITIES

Calendar of Events

October 7—4:30 P.M. Special Technical Meeting. Subject: **Textile Accounting.** Location: Society's Office, 15 E. 41st Street, New York City.

October 9—7:30 P.M. Special Technical Meeting. Subject: **Cost Accounting.** Location: Engineering Auditorium, 29 W. 39th Street, New York City.

October 14—4:30 P.M. Special Technical Meeting. Subject: **Non-Profit Institutions Accounting.** Location: Society's Office, 15 E. 41st Street, New York City.

October 16—7:30 P.M. Special Technical Meeting. Subject: **Monthly Audits.** Location: Engineering Auditorium, 29 W. 39th Street, New York City.

October 20—Regular meeting of the Board of Directors.

October 20—Nineteenth Annual Fall Conference. Subject: **Wage and Hour Law.** Location: Waldorf-Astoria Hotel, Lexington Avenue and 49th Street, New York City.

October 21—4:30 P.M. Special Technical Meeting. Subject: **Foreign Trade Accounting.** Location: Society's Office, 15 E. 41st Street, New York City.

October 23—7:30 P.M. Special Technical Meeting. Subject: **Accounting Machinery.** Location: Engineering Auditorium, 29 W. 39th Street, New York City.

October 28—4:30 P.M. Special Technical Meeting. Subject: **Bank and Trust Company Accounting.** Location: Society's Office, 15 E. 41st Street, New York City.

October 30—7:30 P.M. Special Technical Meeting. Subject: **Accountants' Office Procedure.** Location: Engineering Auditorium, 29 W. 39th Street, New York City.

November 5—4:30 P.M. Special Technical Meeting. Subject: **Consolidations and Reorganizations.** Location: Society's Office, 15 E. 41st Street, New York City.

November 6—7:30 P.M. Special Technical Meeting. Subject: **Social Security Taxes.** Location: Engineering Auditorium, 29 W. 39th Street, New York City.

November 12—4:30 P.M. Special Technical Meeting. Subject: **Automobile Dealers' Accounting.** Location: Society's Office, 15 E. 41st Street, New York City.

November 13—Regular meeting of the Board of Directors.

November 13—7:30 P.M. Special Technical Meeting. Subject: **Inventory Methods.** Location: Engineering Auditorium, 29 W. 39th Street, New York City.

November 17—7:45 P.M. Society Meeting. Subject: **Federal Taxation.** Location: Waldorf-Astoria Hotel, Lexington Avenue and 49th Street, New York City.

November 20—7:30 P.M. Special Technical Meeting. Subject: **Governmental Accounting.** Location: Engineering Auditorium, 29 W. 39th Street, New York City.

November 25—4:30 P.M. Special Technical Meeting. Subject: **Mining and Smelting Accounting.** Location: Society's Office, 15 E. 41st Street, New York City.

1941-42 Meeting Schedule

Commencing with October, the regular monthly meetings of the Society will be held as usual at the Waldorf-Astoria Hotel, New York City. These meetings, at which prominent guest speakers and mem-

bers will address the Society upon various subjects related to accounting, will be held each month during the coming season except February. The first of these sessions will be held on the evening of October 20, 1941, and will be devoted to the subject of Wages and Hours—(See Calendar of Events above).

A change has been effected, however, in the number and type of special technical meetings to be held this year. Heretofore these have fallen into a series of six meetings in the Fall and in the Spring. On September 20, 1941, members received a communication from the Secretary relative to the new schedule of technical meetings. The following is quoted from the text of the Secretary's letter:

> "The Meetings Committee of the Society, believing that the membership desires and appreciates technical meetings of the Society, is arranging a program providing for the holding of at least one meeting by each technical committee during the Society year.
>
> "The program covers two types of technical meetings. First, meetings to be held in the Engineering Auditorium which will be similar to those held previously, and second, meetings to be held in the Society's offices which will cover the questions appropriate for discussion by the respective committees. Reservations will be required for all meetings and reservation slips will be included with notices of meetings. Meetings held at the Engineering Auditorium will be open to members and non-certified members of their staff as previously. Meetings at the Society's office will be open only to members.
>
> "It will help the Committees if members of the Society will submit written questions in advance of the meetings. Your cooperation is asked in this regard. You are also asked to note especially that the time of meetings at the Engineering Auditorium has been changed to 7:30 and that they will start promptly at that hour. Meetings at the office will be at 4:30 and will adjourn at 6:30."

For the list of technical meetings scheduled for October, 1941, see Calendar of Events above; subsequent meeting dates will be published each month.

Tax Meetings

This year the Society's meeting on Federal Taxation will be held on November 17, 1941, in the Grand Ballroom of the Waldorf-Astoria Hotel. The meeting devoted to State Taxation is scheduled for December 8, 1941, in the Starlight Roof of the Waldorf-Astoria. These proceedings, as usual, will be held under the auspices of the Society's Committees on Federal and State Taxation, and a detailed program of the speakers and the various tax subjects to be discussed will be subsequently announced.

In addition, the Committee on Federal Taxation plans to hold a series of tax meetings each month during the year for discussion of various new developments and problems of interest to members in the field of taxation. The election and dates of these meetings will be announced at a later date.

Buffalo Conference

Meeting at Rochester recently, the Central Conference Committee of the Society's four upstate chapters at Buffalo, Rochester, Syracuse and Albany have formulated plans for another Fall Conference, to be held in Buffalo on October 24, 1941. Although no detailed program is available as this issue goes to press, the Committee has announced that the session will include papers and discussions on (a) procedure in outlining audit program, (b) employer's

benefits under unemployment and Social Security, and (c) a discussion of professional problems. The formal papers will be limited in length and emphasis placed upon questions and discussion. An all-day conference is planned comprising a morning and afternoon session, and culminating in a dinner meeting at 6:30 P.M.

Eighth Annual Chapter Conference

The Eighth Annual Chapter Conference of the Society was held on June 27-29, 1941 at Higby's Club, Inc., Big Moose, N. Y. The conference was sponsored by the Albany, Buffalo, Rochester and Syracuse Chapters, and attracted a registration of over one hundred certified public accountants from chapter cities and the metropolitan area.

A. S. Fedde, president of the Society, was general chairman of the conference which opened on Friday afternoon, June 27th, with an address by M. J. Stillman of the National City Bank of Troy, on "What a Banker Expects from a C.P.A." This was followed by a paper on "Auditing Procedure on Government Contracts," by Edwin E. Leffler, C.P.A., Chief of Liaison and Settlement, U.S. Quartermaster General's Department. A discussion on the "Extent of Interim Work Acceptable for Year-End Examinations from the Viewpoint of the Larger Client," was made by Benjamin L. Enloe, President of the Buffalo Chapter, and from the "Viewpoint of the Smaller Client," by Maynard W. Lockwood, Secretary of the Buffalo Chapter. Saturday morning saw the presentation of an excellent talk by John J. Holohan, Jr., Insurance Counselor, on "The Value of a Competent Insurance Counselor." The official nature of the conference was climaxed with an address on Saturday evening by A. S. Fedde, President.

An important part of the Conference was the sports program. The Victor H. Stempf trophy for low gross score in golf was awarded to Walter P. Hooper of Buffalo, and the James F. Hughes trophy for low net score was won by Walter N. Dean of New York. The Syracuse Chapter team, whose members were William A. Newman, Jr., and Frederick S. Wilkinson, again won the Frederick H. Hurdman golf trophy for chapter team competition. Other prizes were awarded to Messrs. Harold B. Simpson and Walter N. Dean of New York, William A. Newman Jr., and Frederick S. Wilkinson of Syracuse, Walter Bradley of Buffalo, Carl D. Thomy of Rochester, and Dr. Irwin A. Conroe of Albany. Door prizes were won by Walter N. Dean and Joseph Getz of New York and Donald Margolis of Rochester.

Committee Chairmen Meeting

On September 25, 1941, the chairmen of the Society's standing and technical committees met for dinner with the Board of Directors at the Waldorf-Astoria Hotel, New York City, with President Fedde presiding. The meeting was honored by the presence of a number of past presidents of the Society: Messrs. Robert H. Montgomery, Homer S. Pace, Joseph J. Klein, P. W. R. Glover, Walter A. Staub, James F. Hughes, and Victor H. Stempf. Also present at this dinner was Benjamin L. Enloe, President of the Buffalo Chapter.

President Fedde, after introducing the past presidents, turned the meeting over to President-elect Stewart, who in turn introduced the chairmen of the standing committees, and spoke briefly on the opportunities for service by standing committees. The chairmen of the technical committees were introduced by Vice-President Saul Levy. A number of the chairmen of these committees described the work of their particular committee. In the absence of Mr. J. Arthur Marvin, Chairman of the

Public Relations Committee, Mr. Levy, as Vice-Chairman, explained the work of the Public Relations Committee, and discussed the staff set-up with respect to the handling of the various details involved.

Military Service

At a meeting of the Board of Directors on September 9, 1940, the following resolution was passed with respect to the remission of dues of any member of this Society entering the armed forces of the Nation:

> "Resolved that the Society remit the dues for the period of active service of any member who enters the armed forces of the Nation by voluntary enlistment, federalization of the national guard or conscription."

It is requested that members so enlisted or conscripted kindly communicate directly with the office of the Society in order that a record be made of the date of their induction, and the branch of service which each member will enter, such as Army, Navy, Air Corps, Marine Corps, etc.

Members in Government Service

The following is a supplement to the list published in the June, 1941 issue of members and associate members serving in the armed forces of the nation:

Herbert W. Aronson
Seymour Edward Blum
Donald B. Caton
Leonard Edelson
Arthur F. Evans
Martin Kelton
Abraham Kraditor
William G. Leary
Norman Lewis
David Marshall
Mitchell F. Munder
Otis K. Smith
Maurice Seifert
Andrew Weiss
Irving Zelon

Editorial Notice

The Committee on Publications is pleased to announce that commencing with this issue, THE NEW YORK CERTIFIED PUBLIC ACCOUNTANT will be published twelve months of the year. The former schedule calls for nine issues; beginning with October, 1941, this publication will also be issued during July, August and September.

To conform with this new publication schedule the subscription rate of THE NEW YORK CERTIFIED PUBLIC ACCOUNTANT has been increased from $2.00 to $3.00 per year commencing with the October issue. Advertising rates remain unchanged.

1941 Year Book

Attention of the membership is called to the fact that the 1941 Year Book of the Society will be published in November instead of October, as formerly announced.

American Institute Elections

At the recent meeting of the American Institute of Accountants held in Detroit on September 15-18, 1941, George Cochrane, retiring director of this Society, was elected a vice-president of the Institute for the coming year, and Samuel J. Broad, a former director of this Society, was re-elected treasurer. Chosen to membership on the Council of the Institute for a period of two years was Andrew Stewart, president of the Society; Martin Kortjohn, former secretary of the Society, and Gordon M. Hill were elected auditors for the coming year.

Arthur H. Carter

Announcement was made in Washington on September 29th that Col. Arthur H. Carter, a past president and former director of the Society, was named a Brigadier-General by President Roosevelt. Colonel Carter is a past vice-president and former

member of Council of the American Institute of Accountants, and also a past president of the National Association of Cost Accountants.

He is a graduate of West Point, class of 1905, and during the last war organized and commanded the Field Artillery Central Officers Training School at Camp Zachary Taylor, Ky., the only school in this country for training of school artillery officers. Col. Carter has been serving in the War Department since last March as executive accountant and administrative officer in the office of Robert P. Patterson, Under Secretary of War.

Davis Walter Morton

Dr. Davis Walter Morton, a member of the Society since March, 1934, died suddenly on July 5, 1941, at the age of 61.

Dr. Morton was a former president of the Syracuse Chapter of this Society, a director of the School of Adult Education of Syracuse University, and a nationally known educator. He had been head of the accounting department of the University of Wisconsin, secretary to the president of the University of Illinois, dean of the Schools of Commerce of the University of Oregon and University of Southern California, and a teacher of business English at Boston University.

The Board of Directors, at its regular meeting on September 25, 1941, adopted the following resolution on the death of Dr. Davis Walter Morton:

"RESOLVED, That in the death of Davis Walter Morton, The New York State Society of Certified Public Accountants lost a loyal member who maintained a continuous membership in the Society for a period of seven years and who served as President of the Syracuse Chapter for one year.

"The Board of Directors of this Society hereby records its sorrow at the death of Dr. Morton and its appreciation of his professional spirit and exemplary action in so faithfully serving the Society and his chosen profession.

"The Board of Directors directs that this resolution be incorporated in the minutes of its meeting and that a copy of it be sent to the family of Dr. Morton."

Lawrence W. Scudder

Word has just been received of the death in May, 1941, of Lawrence W. Scudder, a valued and esteemed member of the Society since June, 1912. He was a partner of the firm of Lawrence Scudder & Co., New York City. He was also a member of the American Institute of Accountants. Mr. Scudder was active on various committees of the Society.

Arthur Andersen

Arthur Andersen, assistant treasurer of the National Carbide Corporation, New York City, died suddenly on June 12, 1941, at the age of 44. He was an esteemed and valued member of the Society since May, 1938. He was also a member of the New Jersey Society of Certified Public Accountants.

He is survived by his widow and two daughters.

L. Lawrence Grabois

We have just been notified of the sudden death of Mr. L. Lawrence Grabois on July 9, 1941. He was a partner of the firm of Wagner, Grabois & Co., New York City. Mr. Grabois was a member of the Society since October, 1930.

Burton N. Lipshetz

Word has just been received of the death on Sept. 8, 1941, of Burton N. Lipshetz a member of the Society since June 1939.

Public Relations Committee, Mr. Levy, as Vice-Chairman, explained the work of the Public Relations Committee, and discussed the staff set-up with respect to the handling of the various details involved.

Military Service

At a meeting of the Board of Directors on September 9, 1940, the following resolution was passed with respect to the remission of dues of any member of this Society entering the armed forces of the Nation:

> "Resolved that the Society remit the dues for the period of active service of any member who enters the armed forces of the Nation by voluntary enlistment, federalization of the national guard or conscription."

It is requested that members so enlisted or conscripted kindly communicate directly with the office of the Society in order that a record be made of the date of their induction, and the branch of service which each member will enter, such as Army, Navy, Air Corps, Marine Corps, etc.

Members in Government Service

The following is a supplement to the list published in the June, 1941 issue of members and associate members serving in the armed forces of the nation:

Herbert W. Aronson
Seymour Edward Blum
Donald B. Caton
Leonard Edelson
Arthur F. Evans
Martin Kelton
Abraham Kraditor
William G. Leary
Norman Lewis
David Marshall
Mitchell F. Munder
Otis K. Smith
Maurice Seifert
Andrew Weiss
Irving Zelon

Editorial Notice

The Committee on Publications is pleased to announce that commencing with this issue, THE NEW YORK CERTIFIED PUBLIC ACCOUNTANT will be published twelve months of the year. The former schedule calls for nine issues; beginning with October, 1941, this publication will also be issued during July, August and September.

To conform with this new publication schedule the subscription rate of THE NEW YORK CERTIFIED PUBLIC ACCOUNTANT has been increased from $2.00 to $3.00 per year commencing with the October issue. Advertising rates remain unchanged.

1941 Year Book

Attention of the membership is called to the fact that the 1941 Year Book of the Society will be published in November instead of October, as formerly announced.

American Institute Elections

At the recent meeting of the American Institute of Accountants held in Detroit on September 15-18, 1941, George Cochrane, retiring director of this Society, was elected a vice-president of the Institute for the coming year, and Samuel J. Broad, a former director of this Society, was re-elected treasurer. Chosen to membership on the Council of the Institute for a period of two years was Andrew Stewart, president of the Society; Martin Kortjohn, former secretary of the Society, and Gordon M. Hill were elected auditors for the coming year.

Arthur H. Carter

Announcement was made in Washington on September 29th that Col. Arthur H. Carter, a past president and former director of the Society, was named a Brigadier-General by President Roosevelt. Colonel Carter is a past vice-president and former

member of Council of the American Institute of Accountants, and also a past president of the National Association of Cost Accountants.

He is a graduate of West Point, class of 1905, and during the last war organized and commanded the Field Artillery Central Officers Training School at Camp Zachary Taylor, Ky., the only school in this country for training of school artillery officers. Col. Carter has been serving in the War Department since last March as executive accountant and administrative officer in the office of Robert P. Patterson, Under Secretary of War.

Davis Walter Morton

Dr. Davis Walter Morton, a member of the Society since March, 1934, died suddenly on July 5, 1941, at the age of 61.

Dr. Morton was a former president of the Syracuse Chapter of this Society, a director of the School of Adult Education of Syracuse University, and a nationally known educator. He had been head of the accounting department of the University of Wisconsin, secretary to the president of the University of Illinois, dean of the Schools of Commerce of the University of Oregon and University of Southern California, and a teacher of business English at Boston University.

The Board of Directors, at its regular meeting on September 25, 1941, adopted the following resolution on the death of Dr. Davis Walter Morton:

"RESOLVED, That in the death of Davis Walter Morton, The New York State Society of Certified Public Accountants lost a loyal member who maintained a continuous membership in the Society for a period of seven years and who served as President of the Syracuse Chapter for one year.

"The Board of Directors of this Society hereby records its sorrow at the death of Dr. Morton and its appreciation of his professional spirit and exemplary action in so faithfully serving the Society and his chosen profession.

"The Board of Directors directs that this resolution be incorporated in the minutes of its meeting and that a copy of it be sent to the family of Dr. Morton."

Lawrence W. Scudder

Word has just been received of the death in May, 1941, of Lawrence W. Scudder, a valued and esteemed member of the Society since June, 1912. He was a partner of the firm of Lawrence Scudder & Co., New York City. He was also a member of the American Institute of Accountants. Mr. Scudder was active on various committees of the Society.

Arthur Andersen

Arthur Andersen, assistant treasurer of the National Carbide Corporation, New York City, died suddenly on June 12, 1941, at the age of 44. He was an esteemed and valued member of the Society since May, 1938. He was also a member of the New Jersey Society of Certified Public Accountants.

He is survived by his widow and two daughters.

L. Lawrence Grabois

We have just been notified of the sudden death of Mr. L. Lawrence Grabois on July 9, 1941. He was a partner of the firm of Wagner, Grabois & Co., New York City. Mr. Grabois was a member of the Society since October, 1930.

Burton N. Lipshetz

Word has just been received of the death on Sept. 8, 1941, of Burton N. Lipshetz a member of the Society since June 1939.

Dana F. Stark

Word has just been received of the death on September 15, 1941, of Dana F. Stark, a certified public accountant in Elmira for about thirty years. Mr. Stark was a valued and esteemed member of the Society since September, 1909. He was a member of the American Institute of Accountants, a member of the New York State Committee on Grievances, and various other organizations.

His widow survives him.

In the death of these members, the Society as well as the accountancy profession at large, has sustained the loss of able and loyal members whose long record of devotion to the profession has contributed much and has exerted an influence which will long survive them.

PROFESSIONAL COMMENT

Wages and Hours

Of interest to accountants will be a letter received on June 30, 1941, from the Regional Director of the Wage and Hour Division in the New York area, dealing with the position of professional employees of accounting firms under the Fair Labor Standards Act. This letter, the text of which is included below, was directed to Benjamin Greenberg, Chairman of the Society's Committee on Accountants' Office Procedure, in reply to an inquiry by that committee.

"This will refer to the request submitted to us in your conference in this office today with Mr. Goldwater for information regarding the position of the Wage and Hour Division with respect to application of the exemption provided in Section 13(a)(1) of the Fair Labor Standards Act and elaborated in Section 541.2 of the old Regulations and Section 541.3 of the amended Regulations revised October 24, 1940 in the case of professional employees of accounting firms.

"As you know, the phrase 'bona fide professional capacity' as used in Section 13(a)(1) of the Act has been defined and delimited by the Administrator in the sections of Regulations—Part 541 referred to above. The salary test of $200 per month was incorporated in the Regulations as amended October 24, 1940. Prior to the latter date, therefore, a particular accounting employee who fulfilled all of the requirements of Section 541.2 of the former Regulations might be exempt from the wage and hour provisions of the Act as a bona fide professional regardless of the salary he earned.

"Of course junior accountants engaged in routine duties under direct supervision and with no great degree of freedom or independent discretion and judgment in the accomplishment of assigned tasks, would not meet the requirements for exemption, either prior to October 24, 1940 or thereafter. On the other hand, certified public accountants, senior accountants, supervising accountants, auditors and similar accounting employees given independent discretion to carry out responsible and difficult tasks might well have met the requirements for exemption prior to October 24, 1940 regardless of the salary earned.

"Our own experience has indicated that accountants engaged in true auditing work as distinguished from bookkeeping work are engaged in the continuous exercise of judgment and that such auditing work is generally of a non-routine nature under normal circumstances. We believe this may well be true even where an auditing report may subsequently be written by someone else. It is of course extremely difficult to draw a distinction between accounting work which is not professional in nature and accounting work which meets all of the requirements of the Administrator's definition. The present $200 per month test, of course, does provide us with a definite criterion which is of assistance in determining application of the definition contained in Section 541.3 of the amended Regulations in the case of accountants, even though, as pointed out above, the salary test does not of itself suffice and the other indicated requirements must also be met.

"It will probably also interest you to know that we have on other occasions stated as our opinion that it would appear that, under normal circumstances, certified public account-

ants meet the educational requirements set forth in subsection (a) (iv) of Section 541.2 of the former Regulations and subsection (A) (5)(a) of Section 541.3 of the amended Regulations.

"If this office can be of further assistance, do not hesitate to call upon us.

Very truly yours,

For: ARTHUR J. WHITE
Regional Director

By: ARTHUR E. REYMAN
Regional Attorney"

Classification of Accountants for National Defense

The following information has been received from the Secretary of the American Institute of Accountants, and is reprinted here for the attention of all members of the profession:

In a recent interview with Dr. Steuart Henderson Britt, consultant of the National Resources Planning Board, a representative of a subcommittee of the Institute's Committee on National Defense learned that the Board expects that it will receive a number of applications from accountants between the age of 21 and 28, registered with that Board, for deferment under the selective service act. However, unless the applicant has already enrolled by filling out a questionnaire, his application for deferment would not be considered by the Board.

The establishment of a roster of scientific and specialized personnel by the National Resources Planning Board, with the cooperation of the Institute and the National Association of Cost Accountants, was announced in the August issue of the CERTIFIED PUBLIC ACCOUNTANT. In addition to the work of the Board in advising selective service boards on the deferment of technical and scientific employees, it has another important function—the compilation of data on special abilities possessed by older men in the profession, which might be of service to the government.

The Board has requested that the Institute assist it in sorting out those applicants entitled to deferment, following the Board's own investigation of the applications. Dr. Britt's proposal is now being considered by the Institute's Committee on National Defense.

Laundry Industry Accounting

Of interest to accountants is a recent publication of the American Institute of Laundering entitled "Uniform Accounting for the Laundry Industry," a 28-page booklet containing the Institute's account classifications for laundries of varying sizes and other information pertaining to uniform accounting methods for this industry. The Institute has kindly agreed to make this information available to any public accountant interested in the subject. The booklet, as well as a reprint of "Accounting Problems and Opportunities in the Laundry Industry," [an article by Domer E. Dewey, manager of the Institute's Department of Accounting, which was published in the June, 1941 issue of the JOURNAL OF ACCOUNTANCY], may be obtained by communicating with the headquarters of the Institute at Joliet, Illinois.

Columbia Accounting Institute

Columbia University, in collaboration with The National Association of Cost Accountants through its Metropolitan Chapters, announces the Third Accounting Institute, to be held at Columbia University on Thursday and Friday, October 30th-31st.

The general topic of the two-day conference will be "Current Controversies in the Application of Accounting Principles."

Formal discussion periods will follow the presentation of carefully

selected subjects by leading speakers, thus affording opportunity to hear the respective views of the cost accountant, tax accountant, public accountant, retail accountant and public utility accountant, as well as of the teaching profession. There will also be general discussion from the floor.

The final session on October 31st will be a dinner to be held at John Jay Hall on the University Campus.

Commentaries from Various Sources

"Granted that many people are unable to read statements and certificates intelligently, it seems to me that the aim of the accounting profession should be to make those statements and certificates as clear and unambiguous as their technical nature permits. Financial statements which conform to conventions and customs are not adequate if, in fact, they serve to conceal or fail to bring to light financial conditions or results which an intelligent investor needs to know in order to form a judgment. Certificates are not adequate if they evade expression of opinion regarding accounting practices which are not sound. I question how far an accountant may, in good conscience, resort to a multitude of notes attached to statements to explain unsound, questionable, or irregular practices where clarity of statement and of opinion would be better obtained by showing as a part of the statements themselves the adjustments necessary to bring those statements into accord with sound practice."

From an address by Andrew J. Cavanaugh, Assistant Director, Securities and Exchange Commission, before the Middle Atlantic States Accounting Conference June 7, 1941.

* * * *

"Perhaps one of the most important results of the requirements of full and fair disclosure (of financial data) is the effect which it has had on accounting practices. The responsible accountant feels that he owes an obligation to the public to prepare informative and accurate reports. The accounting profession welcomed the disclosure requirements of the Securities Act and the Securities Exchange Act because the passage of those acts and their administration by the Securities and Exchange Commission have been instrumental in bringing about numerous important reforms in accounting and auditing techniques. Furthermore, the disclosure requirements have aided accountants in their desire to adhere to high professional standards which formerly were sometimes undermined by unscrupulous competitors who were willing to compromise their principles for a fee."

From an address by Robert E. Healy, Commissioner, Securities and Exchange Commission, before the Vermont Bankers Association June 21, 1941.

* * * *

"Apart from their purely legal obligations to clients, the direct personal relationship involved in the course of carrying out professional duties and any special legislation, the professions have created an ethical code for their own protection and that of the community. The establishment and enforcement of such codes do not wait on the law. Is it not, therefore, for the accounting profession itself to determine what it conceives to be its functions, duties, and obligations, and to decide to what extent, if any, it may be necessary to modify existing practice, either as the result of the *McKesson and Robbins* case, or for any other reason? In other words, if it is considered desirable to modify the "watch dog" principle in any way, will the best interests of the profession be served by postponing

action and waiting for legislation that may not materialize? In this connection, it is hardly necessary to remind your readers that the law tends to lag behind the public opinion, which is one of the great stimuli of legislation."

From a letter appearing in the June 21, 1941 issue of THE ACCOUNTANT, *official organ of the Institute of Chartered Accountants in England and Wales.*

* * * *

"There is an imminent shortage of accountants. That shortage will become acute in the very near future, and will continue throughout the war, because it is part of the general problem of man power. And this will be no temporary condition. The lessons learnt during the war as to the value of accounting services will not be forgotten in times of peace, and I confidently believe that the demand for accountants will go on increasing steadily in peacetime as in wartime. One of the most serious of the immediate problems which the profession has to face, therefore, is the maintenance of the supply of skilled accounting services, and, if possible, the increase of that supply.

"We ought to be planning now to solve this problem. The solution will not be easy. And the problem will not be solved over-night or by any simple formula. In the long run, it will necessitate a carefully designed educational programme for accountants, and a thorough public campaign to demonstrate the attractions of accountancy as a career.

"We ought now to be setting out to prove to our schools, universities and other educational institutions that the study of accountancy is worthy of the best brains in the community. There is so much to be learned, we know so little about accountancy in the highest sense, that we have so far not done much more than scratch the surface of this field of knowledge."

From the address of the General President before the Annual Meeting of the Commonwealth Institute of Accountants, Melbourne, Australia, May 13, 1941.

ELECTIONS

The following is a list of applicants admitted to membership and associate membership in the Society, and also associate members advanced to membership at the meetings of the Board of Directors held on June 12, 1941 and September 25, 1941, respectively:

June 12, 1941

Membership

Back, Morris, 55 W. 42nd Street.
Braunstein, Philip A., 11 W. 42nd Street.
Fields, Francis X., 67 Broad Street, With Haskins & Sells.
Gasarch, Joseph M., 155 Leonard Street, With District Attorney, New York County.
Grifhorst, Arnold Henry, 67 Broad Street, With Haskins & Sells.
Iversen, Samuel D., 152 W. 42nd Street.
Lusskin, Israel, 33 W. 42nd Street, Of Lusskin & Bernstein.
Montgomery, Kenneth Mills, 67 Wall St., Of Arthur Andersen & Co.
Simmons, J. Edward, 16 Wall Street, Co-Executor, Estate of Mabel L. Simmons, With Bankers Trust Co.
Tannen, E. Richard, 280 Madison Avenue, Of E. Richard Tannen & Company.
Taylor, H. T., 175 Fifth Avenue.
Weinstein, Josephus, 120 W. 42nd Street.
Wolfort, Arthur A., 295 Madison Avenue.

Associate Membership

Edelson, Leonard, Quantico, Va., With United States Marine Corps Reserve.
Gabler, Irving, 1440 Broadway, With Freedman & Freedman.
Gola, Joseph, Jr., Smith Bldg., Greenwich, Conn., Of Bridge, Gola & Company.
Goldberg, Bernard, 1501 Broadway, With Zabronsky & Zabronsky.
Goldfinger, B. Sol., 570 Seventh Avenue, With N. Tannenbaum & Co.
Hewell, Walter Reece, Washington, D.C., With War Department, Quartermaster Corps.
Jacobs, Bernard A., 1450 Broadway, With N. Feinberg & Co.
Kaufman, Harold M., 7th & K Sts., N. W., Washington, D. C., Assistant Controller, The Goldenberg Co.
Landsman, James A., 441 Ocean Avenue, Brooklyn.
Marx, Henry Siegfried, 485 Fifth Avenue, With I. B. Kleinert Rubber Co.
Palmer, R. Gerard, 90 Broad Street, With Miller, Donaldson & Co.
Perry, Louis N., 350 Madison Avenue, With Hurdman & Cranstoun.
Sager, Jacob, 295 Madison Avenue, With Sidney B. Kahn.
Saxman, Nathan, 215 E. 149th Street, Treas.-Compt., Mate Coal Co., Inc.
Slater, Alexander E., 276 Fifth Avenue, With Benj. H. Scheinblum & Co.
Smolowitz, Sol, 1 E. Fordham Road.
Spicehandler, Ammiel A., 250 W. 57th St.
Wagner, Philip Vincent, DuPont Bldg., Wilmington, Del., With E. I. duPont deNemours & Co.
Wallach, Albert, 22 W. 21st Street, With Arell Company.
Wanderman, Herbert S., 302 Broadway, With Lang & Wolfson.

Advancement from Associate Membership to Membership

Ball, William Alfred, 49 Wall Street, With Deloitte, Plender, Griffiths & Co.
Breslow, Daniel H., 1450 Broadway, With Michael H. Blum.
Brown, Albert, 2 W. 45th Street, With L. A. Atz Company.
Brown, Cecil Conrad, Southeastern Bldg., Greensboro, N. C., With A. M. Pullen & Company.
Cabuli, Maurice J., 270 Lafayette Street.
Feinberg, Irwin L., 1440 Broadway, With Harold A. Abrams.
Freelove, Arthur F., 90 State Street, Albany, Of Ball, George & Co.
Lavine, Sanford E., State Tower Bldg., Syracuse.
Pusinelli, Eric, 19 W. 44th Street, Of Eric Pusinelli & Co.
Scull, Herbert Ralph, 1441 Broadway, Of E. H. Scull Company.

September 25, 1941

Membership

Bosse, Robert H., 33 W. 42nd Street, With Wolf and Company.
Campbell, James A., 67 Wall Street, With Arthur Andersen & Co.

Chapin, Henry S., 67 Broad Street,
With Haskins & Sells.
Clark, E. Harold C., 70 Pine Street,
With Peat, Marwick, Mitchell & Co.
Cohen, Herman C., 450 Seventh Avenue.
Cohen, Solomon, 11 Park Place.
Cunnington, Roy Dan, 420 Lexington Avenue,
Of P. L. Crawford & Co.
Deering, John J., 1 Cedar Street,
With Arthur Young & Company.
Dettleff, Richard J., Lincoln-Alliance Bank Bldg., Rochester,
With Naramore, Niles & Co.
Ellins, David, 305 Broadway.
Gesell, William Hance, Jr., 200 W. Houston Street,
Pres. & Treas., R. Gesell, Incorporated.
Gezelter, Abraham, 1182 Broadway.
Gordon, David M., 33 W. 42nd Street,
Of Gordon & Levine.
Hagan, Eugene Post, 67 Wall Street,
With Pasley & Conroy.
Hellerson, Charles Benedict, 50 Broadway,
With O. F. Taylor & Co.
Hochdorff, George, 4217—16th Avenue, Brooklyn.
Judelson, Jack, 2 West Main Street, Middletown,
Of Hirsch & Judelson.
Jurgrau, Leon B., 274 Madison Avenue,
Of Jurgrau, Katz & Koppelman.
Konkle, Felix R., 90 Broad Street,
With Lybrand, Ross Bros. & Montgomery.
Kramer, Jacob, 50 E. 42nd Street,
Of Rachlin, Miller and Kramer.
Larkin, Harry H., 175 Fifth Avenue,
Of Louis J. Hollander & Co.
Licht, Emanuel M., 67 W. 44th Street.
Rosenshein, Max J., 1457 Broadway.
Ryan, Stephen Gould, 80 Broad Street,
With Loomis, Suffern & Fernald.
Schlichtmann, Henry P., 90 Broad Street,
With Lybrand, Ross Bros. & Montgomery.
Seldon, Samuel, Albany,
With State of New York, Dept. of Audit & Control.
Shaw, George Edgar, 247 Park Avenue,
With National Industrial Conference Board.
Sisk, John Kelly, 410 News Building, Greenville, S. C.,
Of O'Neall & Sisk.
Stevralia, Philip Francis, 90 Broad Street,
With Lybrand, Ross Bros. & Montgomery.
York, Herman, 1441 Broadway,
With Surosky, Marcus & Co.

Associate Membership

Colvin, James Graham, 250 Park Avenue,
Asst. Comptroller, St. Joseph Lead Co.
Davis, Franklin Frederick, 125 Park Ave.,
With S. D. Leidesdorf & Co.
Eichel, David, 1653 E. 31st Street, Brooklyn.
Friedlander, Irving D., 57 Gramatan Avenue, Mt. Vernon.
Greenbaum, Bernard, 152 W. 42nd Street
Greenbaum, Howard H., 521 Fifth Ave.,
With Eisner & Lubin.
Hermele, Cyril Harold, 175 Fifth Avenue,
With Sirota, Kraus & Gleason.
Kane, Harold Bennett, 1450 Broadway,
With Rains, Levin and Company.
Lassar, Emanuel, 277 Broadway,
With Joseph H. Dworetsky.
Leary, William Gillett, Elkton, Md.,
With Supply Corps, U.S.N.R., Cost Inspector, U.S.N.,
Triumph Explosives, Inc.
Mast, Louis L., 1150 Brighton Beach Avenue, Brooklyn.
Morse, Edwin H., 56 Pine Street,
With Price, Waterhouse & Co.
Rothstein, Justin, 180 Madison Avenue,
With H. M. Hubshman & Bro.
Weinmann, Benjamin C., 1440 Broadway,
With Schiller & Joffe.
Wolff, George Ernest, Fort Benning, Ga.,
With United States Army, Company E, 8th Infantry.

Advancement from Associate Membership to Membership

Bac, Alexander, 1757 Broadway,
With Chrysler New York Company, Inc.
Battisti, Albert D., 90 Broad Street,
With Lybrand, Ross Bros. & Montgomery.
Blume, Philip H., 305 Broadway,
With David Wax.
Briloff, Abraham J., 347 Madison Avenue,
With Apfel & Englander.
Carlson, Charles L., 206-7-8 Masonic Temple, Olean,
Of C. J. Carlson & Son.
Chaikin, M. Jay, 217 Broadway,
Of Moscowitz & Rosenthal.
De Jager, Harold Roger, 906 Lincoln-Alliance Bank Bldg., Rochester,
With Ernst & Ernst.
Drakert, Robert, 111 Broadway,
With Scovell, Wellington & Company.
Gdansky, Arnold E., 450 Seventh Avenue,
With United Audit Co.
Hall, Harry R., 125 Park Avenue,
With S. D. Leidesdorf & Co.
Hillman, Robert E., 67 Broad Street,
With Haskins & Sells.
Jensen, Arthur Severn, 60 Broadway,
Asst. Secretary & Asst. Treasurer, Blue Ridge Corporation.
Joel, Henry, 24 Commerce Street, Newark, N. J.,
With Sternrich & Siegel.
Kappauf, Robert E., 56 Pine Street,
With Price, Waterhouse & Co.

Lewis, Norman, Governors Island,
With Second Corps Area, Surgeons Office.
Newhouse, Harold Roy, 347 Madison Ave.,
With Apfel & Englander.
Pertain, Charles Andreé, 21 West Street,
With Leslie, Banks & Co.
Piercey, William Edmund, 22 E. 40th St.,
With Haskins & Sells.
Rabinowitz, David, 551 Fifth Avenue,
With Harry Rubin.
Rod, Norman J., 25 Broadway,
With I. Newton Brozan.
Shapiro, Sam, 6 E. 45th Street,
With Irving Handel.
Simons, Robert, 120 Wall Street,
With American Molasses Company.
Soule, Frank Channing Soule, II, 56 Pine Street,
With Price, Waterhouse & Co.
Stern, Albert W., 56 Pine Street,
With Price, Waterhouse & Co.
Thaller, Victor Crawford, 111 Broadway,
With Scovell, Wellington & Company.
Wetstein, Frank T., 1 Cedar Street,
With Arthur Young & Company.
Williamson, Robert John, 1013 Liberty Bank Bldg., Buffalo,
With Lucker & Severance.

The numbers of members in the Society as of October 1, 1941, is as follows:

Members	3,488
Associate Members.	445
Total	3,933

Successful Candidates at New York State C. P. A. Examinations, April, 1941

The names of all persons who passed the April, 1941 examinations given by New York State to those who would become Certified Public Accountants have been received by the Society from the State Education Department.

These successful candidates are now eligible for a certificate as a C.P.A. provided they have submitted satisfactory evidence to the Education Department of the State of good moral character and evidence of academic and professional qualifications for the public practice of accountancy.

The list is as follows:

Abkowitz, Irving B.	1040 Tinton Avenue, New York City
Ackerman, Charles A.	2540 Valentine Avenue, Bronx, N. Y.
Adler, Herbert	2114—63rd Street, Brooklyn, N. Y.
Anderten, George L.	94 Rossmore Place, Belleville, N. J.
Arnold, David R.	56 Pine Street, New York City
Aronen, Tauno	1775 Broadway, New York City, c/o John W. Stokes
Ashman, Wilbur C.	24 Fifth Avenue, New York City
Auerbach, Harry S.	960 Grand Concourse, New York City

Baker, Keith L., Jr.	157 Euston Road, Garden City, N. Y.
Bankwitz, Walter G.	99-47—63rd Road, Forest Hills, N. Y.
Barnett, Charles E.	115 Payson Avenue, New York City
Barth, Samuel	30 Ellwood Street, New York City
Beck, Frank	272 Crescent Street, Brooklyn, N. Y.
Berman, Paul	3511—14th Avenue, Brooklyn, N. Y.
Bernstein, Jacob	518 E. 99th Street, Brooklyn, N. Y.
Bersofsky, Abraham	307 E. 8th Street, New York City
Blanchard, Alice M.	85 Manning Boulevard, Albany, N. Y.
Bliss, Albert E.	85 Bronx River Road, Yonkers, N. Y.
Bloom, Daniel	1772—46th Street, Brooklyn, N. Y.
Borenstein, Hyman	725 Southern Boulevard, Bronx, N. Y.
Bowen, Robert A.	37-46—80th Street, Jackson Heights, N. Y.
Bragonier, James M., Jr.	79 Grace Avenue, Great Neck, N. Y.
Braitman, Irving	446 Berriman Street, Brooklyn, N. Y.
Brandell, Milton	1196 Neck Road, Brooklyn, N. Y.
Brauer, Augustus M.	1610 Avenue P, Brooklyn, N. Y.
Bristol, Richard K.	40-35 Ithaca Street, Elmhurst, N. Y.
Brown, Ronald F.	37 Clinton Avenue, Rockville Centre, N. Y.
Bruce, Duncan, Jr.	107 Hawthorne Road, Baltimore, Md.
Brunner, John L.	85 Bronx River Road, Yonkers, N. Y.
Burchill, Lewis R.	310 E. 75th Street, New York City

Callahan, John F.	6 Burns Street, Forest Hills, N. Y. (Tennis Apts.)
Campbell, Wallace E.	336 N. Maple Avenue, East Orange, N. J.
Catterall, John J.	15 Ridge Road, Lyndhurst, N. J.
Cessin, Louis S.	60 Bay 28th Street, Brooklyn, N. Y.
Chase, Hollis H.	126 Archer Avenue, Mt. Vernon, N. Y.
Cherkasky, Morris	838 Beck Street, New York City
Chester, William C.	9140 Lamont Avenue, Elmhurst, N. Y.
Clark, David	14 Broome Street, New York City
Cohen, Benjamin	1405 Teller Avenue, New York City
Cohen, Saul	28th floor, 1501 Broadway, New York City
Corman, Charles M.	84-49—168th Street, Jamaica, N. Y.
Coumont, Ogareff	32-28—47th Street, L. I. C., N. Y.

D'Aleo, Hugo E.	1888 Belmont Avenue, New York City
Davidoff, Samuel	2370 Ocean Avenue, Brooklyn, N. Y.
Davidson, Charles W.	265 Westwood Avenue, Long Branch, N. J.
Davis, Franklin F.	845 South 13th Street, Newark, N. J.
Davis, Leo	1220 Morris Avenue, Bronx, N. Y.

Davis, William F.	8630—98th Street, Woodhaven, N. Y.
Deitz, William	1270 E. 19th Street, Brooklyn, N. Y.
Denier, Frank H.	9009—32nd Avenue, Jackson Heights, N. Y.
Deutsch, Henry	666 West End Avenue, New York City
Diamant, Morris	1565 Townsend Avenue, Bronx, N. Y.
Diamond, Irving P.	273 Cypress Avenue, New York City
Dolan, William J.	62 W. 48th Street, New York City
Doliner, Irving	201 E. 96th Street, Brooklyn, N. Y.
Doty, George E.	157 W. 88th Street, New York City
Dragan, Joseph	12-18 Cross Island Boulevard, Whitestone, N. Y.
Drake, Gregory	17 E. 42nd Street, New York City
Duchan, Irving L.	91 Ft. Washington Avenue, New York City
Easton, Kermit	2664 Grand Concourse, New York City
Edelstein, Morris	2650 Briggs Avenue, Bronx, N. Y.
Eichel, David	1653 E. 31st Street, Brooklyn, N. Y.
Eisen, Charles J.	131 Lincoln Road, Brooklyn, N. Y.
Eisenberg, Harry	1458 Seabury Place, New York City
Elkind, Harry	20 Featherbed Lane, Bronx, N. Y.
Enzel, Cornelius D.	86-30—139th Street, Jamaica, N. Y.
Etra, Bernard	1538 E. 7th Street, Brooklyn, N. Y.
Farley, Joseph T.	61 Bretton Road, Yonkers, N. Y.
Feuerstein, Harold	404 Saratoga Avenue, Brooklyn, N. Y.
Fielder, John A.	153 E. 18th Street, New York City
Fisher, Maurice	332 Rogers Avenue, Brooklyn, N. Y.
Fishman Robert	1480 Popham Avenue, New York City
Frankel, David	2050 Bergen Street, Brooklyn, N. Y.
Franzino, Peter	915—84th Street, Brooklyn, N. Y.
Freifeld, Robert	2121 St. Raymond Avenue, Bronx, N. Y.
Freinhar, Herman	1306 Fteley Avenue, Bronx, N. Y.
Frey, Bernard	1780 E. 23rd Street, Brooklyn, N. Y.
Friedman, Alexander	4718 Avenue I, Brooklyn, N. Y.
Fuller, Robert H.	1821 Mohegan Avenue, New York City
Gallin, Harry	505 University Avenue, Rochester, N. Y.
Gandelman, Hiram	Fort Schuyler, N. Y.
Gatchell, Raymond	135 Hicks Street, Brooklyn, N. Y.
Geehr, Albert S., Jr.	197 North Street, Buffalo, N. Y.
Geissler, Ralph E.	189 Waverly Place, New York City
Gershun, Max	1254 Grant Avenue, Bronx, N. Y.
Gevirtz, Louis	289 Oakland Street, Brooklyn, N. Y.
Giblin, Edmund B.	1347 E. 27th Street, Brooklyn, N. Y.
Gillespie, Francis S.	113-08—209th Street, St. Albans, N. Y.
Gimpel, William, Jr.	276 Third Avenue, New York City
Glantz, Edward R.	1466 Townsend Avenue, New York City
Gold, Alfred	299 Lee Avenue, Yonkers, N. Y.
Goldman, Joel H.	2214—84th Street, Brooklyn, N. Y.
Goldstein, Irving A.	121 Avenue P, Brooklyn, N. Y.
Goldstein, Leo	557 Kosciusko Street, Brooklyn, N. Y.
Gottlieb, Irving J.	1335 Brook Avenue, Bronx, N. Y.
Gottlieb, Martin	165 W. 197th Street, Bronx, N. Y.
Gottlieb, Vitaly M.	43-09—40th Street, L. I. C., N. Y.
Green, David	363 Ocean Parkway, Brooklyn, N. Y.
Greenberg, Nathaniel V.	609 W. 114th Street, New York City
Greenberg, Samuel J.	157 Hewes Street, Brooklyn, N. Y.
Grossman, Morris	3613 Avenue D, Brooklyn, N. Y.
Haimo, Alan	2160 Wallace Avenue, Bronx, N. Y.
Hamerslag, Robert L.	167 E. 82nd Street, New York City
Harris, Bernard H.	52 Clark Street, Brooklyn, N. Y.
Harris, Justin C.	215 W. 83rd Street, New York City
Hatcher, Kenneth M.	125 Columbus Avenue, Port Chester, N. Y.
Hauser, Clarence E., Jr.	1360 E. 19th Street, Brooklyn, N. Y.
Hazen, William	2850 Clafin Avenue, Bronx, N. Y.
Hecht, Joseph	670 Oakland Place, Bronx, N. Y.
Heliker, Sherburne J.	36 Metropolitan Oval, Bronx, N. Y.
Hennessey, William M.	2042—32nd Street, Astoria, N. Y.
Herman, Joseph M.	1 Sickles Street, New York City

Herson, Richard J.	150-07—84th Drive, Jamaica, N. Y.
Hesselman, Leo W., Jr.	42 Kilburn Road, Garden City, N. Y.
Hibel, Bernard	1226 Lincoln Place, Brooklyn, N. Y.
Hicks, Frederick L.	4 Penn Road, Winchester, Mass.
Hiester, Lewis D.	143-17—38th Avenue, Flushing, N. Y.
Hoffman, Nathan	30 Westminster Road, Brooklyn, N. Y.
Horneffer, Lawrence G.	139 Effingham Place, Westfield, N. J.
Hufnagel, Henry J.	38 N. 13th Street, Newark, N. J.
Hyman, Leo	180 Bennett Avenue, New York City
Inzana, Peter	20 Kearny Avenue, Kearny, N. J.
Irving, Robert C.	98-39—65th Road, Forest Hills, N. Y.
Isaacson, Herbert S.	42 Elliot Place, New York City
Jasper, Francis E.	3525 Decatur Avenue, New York City
Johnson, Chester P.	38 Brickell Avenue, Westwood, N. J.
Johnson, Eugene P.	41-16—47th Avenue, L. I. C., N. Y.
Jung, William W.	801 E. 22nd Street, Brooklyn, N. Y.
Kain, Arthur B.	1402 Avenue K, Brooklyn, N. Y.
Kalter, Harold L.	1761 Ocean Avenue, Brooklyn, N. Y.
Kanner, Max	710 Avenue U, Brooklyn, N. Y.
Katz, Samuel S.	63 Pitt Street, New York City
Kaufman, Joseph A.	31 E. 21st Street, Brooklyn, N. Y.
Kaylin, Stanley M.	1706 Davidson Avenue, New York City
Keller, Samuel B.	1746 E. 13th Street, Brooklyn, N. Y.
Kennedy, Joseph D., Jr.	338—84th Street, Brooklyn, N. Y.
Kirwin, John J.	812 Wilcox Avenue, Bronx, N. Y.
Kohler, Pauline B.	1267 Commonwealth Avenue, Bronx, N. Y.
Kohnlein, Edward C.	1348 Ocean Avenue, Brooklyn, N. Y.
Kolb, Richard	19 E. 98th Street, New York City
Koppel, Alfred	1323 Croes Avenue, New York City
Kopta, Walter W.	170 Oldfield Avenue, Amityville, N. Y.
Koyen, Howard A.	44 Rector Street, Perth Amboy, N. J.
Kraft, Ural S.	1200 Bay Street, Rosebank, Staten Island, N. Y.
Krotman, Joseph H.	262 Legion Street, Brooklyn, N. Y.
Kroupa, John	134-13—59th Avenue, Flushing, N. Y.
Laiserin, Maurice	813 Crown Street, Brooklyn, N. Y.
Lambrides, Nicholas G.	92-16—55th Avenue, Elmhurst, N. Y.
Lanz, Norman	1 Edward Street, Ossining, N. Y.
Larson, Ernest G.	15 Glover Avenue, Yonkers, N. Y.
Lashenick, Julius H.	576 Midwood Street, Brooklyn, N. Y.
Ledermann, Ernst	82-46 Lefferts Boulevard, Kew Gardens, N. Y.
Leffert, David J.	136 Renwick Place, Syracuse, N. Y.
Lefkowitz, Abraham	524 Hopkinson Avenue, Brooklyn, N. Y.
Leicht, Louis	77 Second Avenue, New York City
Lenner, Emil J.	47-56—45th Street, Woodside, N. Y.
Levinson, Courtney D.	710 E. 235th Street, New York City
Lind, Eli L.	524 Timpson Place, Bronx, N. Y.
Lindquist, Harold	3121—54th Street, Woodside, N. Y.
Lindquist, Iver T.	34-31—81st Street, Jackson Heights, N. Y.
Loomis, Stanley	1551 Sheridan Avenue, New York City
Lowenbraun, Morton M.	759 Crown Street, Brooklyn, N. Y.
Luce, William E.	1178 Halsey Street, Brooklyn, N. Y.
Luger, David J.	1121—54th Street, Brooklyn, N. Y.
Lustig, Stephen	855 Faile Street, Bronx, N. Y.
Lyke, Eugene C.	55 Clinton Street, W. Hempstead, N. Y.
Lynn, Richard	350 W. 88th Street, New York City
Mabel, Edward	390 Parkside Avenue, Brooklyn, N. Y.
MacLennan, Ian Duncan	49 Sherman Street, Brooklyn, N. Y.
MacKenzie, George D.	388—8th Street, Brooklyn, N. Y.
Maley, Robert A.	1635 Marine Trust Building, Buffalo, N. Y.
Mancina, Peter F.	565 W. 113th Street, New York City
Manning, Murray J.	15 E. 101st Street, New York City
Marmorstein, Morris	357 Woodlawn Avenue, Jersey City, N. J.
Mast, Louis L.	1150 Brighton Beach Avenue, Brooklyn, N. Y.
McDonald, James E.	340 Crescent Avenue, Leonia, N. J.

McGuinn, Martin J.	5 Drew Avenue, Highland Falls, N. Y.
McKenna, Frank B., Jr.	84-49—168th Street, Jamaica, N. Y.
McNamara, Roland J.	1343 Jefferson Avenue, Brooklyn, N. Y.
Mead, Frederic M.	501 W. 7th Street, Plainfield, N. J.
Meehan, William D.	56-50—68th Street, Maspeth, N. Y.
Meindel, Arthur J.	118-40—236th Street, St. Albans, N. Y.
Meisler, Sol	238 E. 7th Street, New York City
Metz, Harry	1211 Park Avenue, Rochester, N. Y.
Metzger, Joseph F.	87-22—143rd Street, Jamaica, N. Y.
Miller, Richard A.	1173 Sumner Avenue, Schenectady, N. Y.
Miller, Samuel	627 Vermont Street, Brooklyn, N. Y.
Millstein, Abraham	1230 Sheridan Avenue, New York City
Morgenstern, Bernard	3216 Kossuth Avenue, New York City
Morrison, Nelson	2032 E. 12th Street, Brooklyn, N. Y.
Moskowitz, Hyman	1583 Macombs Road, Bronx, N. Y.
Muns, Ralph E.	3705—80th Street, Jackson Heights, N. Y.
Naftulin, Barnet	424 Pulaski Street, Brooklyn, N. Y., c/o Katzoff
Newberger, Martin	3601 Kings Highway, Brooklyn, N. Y.
Noonan, Donald C.	22 W. 43rd Street, Bayonne, N. J.
Oraftik, Charles J.	1169—2nd Avenue, New York City
Orlin, Harold J.	1052 Findlay Avenue, Bronx, N. Y.
Pausack, Samuel	2055 McGraw Avenue, Bronx, N. Y.
Pepper, Daniel	3314 Wilson Avenue, Bronx, N. Y.
Peterson, John E., Jr.	67 Wall Street, c/o Arthur Andersen & Co., New York City
Pincus, Robert E.	2818 W. 31st Street, Brooklyn, N. Y.
Pinter, Alexander, Jr.	503 E. 78th Street, Brooklyn, N. Y.
Plachter, George E.	3030 Brighton 12th Street, Brooklyn, N. Y.
Pollack, David	974 Aldus Street, Bronx, N. Y.
Pomer, Sidney R.	500 St. Johns Place, Brooklyn, N. Y.
Pranke, Edward J., Jr.	58 Ettrick Terrace, Rutherford, N. J.
Presser, Max L.	3451 Giles Place, Bronx, N. Y.
Puchalsky, Irving	2910 W. First Street, Brooklyn, N. Y.
Quinn, John G.	111-27—115th Street, Richmond Hill, N. Y.
Randall, Alfred L.	201 W. 77th Street, New York City
Rapoport, Sidney	325 Roebling Street, Brooklyn, N. Y.
Reid, Robert E.	16 Kingsland Place, Babylon, N. Y.
Reisman, Max	10 Monroe Street, New York City
Reiter, Harry S.	310 W. 72nd Street, New York City
Resnick, Sydney	Service Battery, 2nd Brigade, 187 Field Artillery, Fort Ethan Allen, Vermont
Reynolds, Richard A.	196-50—44th Avenue, Flushing, N. Y.
Richman, Morris	320 Eastern Parkway, Brooklyn, N. Y.
Roberts, Ellis L.	47 Featherbed Lane, Bronx, N. Y.
Rodger, G. Menzies, Jr.	272 E. 236th Street, New York City
Rosenberg, Milton	3096 Brighton 6th Street, Brooklyn, N. Y.
Rossin, James	507—5th Avenue, New York City
Roth, Alexander	2849 E. 196th Street, New York City
Roth, Lawrence M.	170-11 Highland Avenue, Jamaica, N. Y.
Rothman, Sanford E.	770 Empire Boulevard, Brooklyn, N. Y.
Rothman, Sol	814 Eastern Parkway, Brooklyn, N. Y.
Rotrosen, Samuel	240 Mt. Hope Place, Bronx, N. Y.
Rubin, Milton N.	476 E. 94th Street, Brooklyn, N. Y.
Rubinson, Samuel	391 Legion Street, Brooklyn, N. Y.
Rubinstein, Harry P.	5829 Kings Highway, Brooklyn, N. Y.
Rubinstein, Morris H.	1569—47th Street, Brooklyn, N. Y.
Rubman, Fred	444 Central Park West, New York City
Rulnick, Milton M.	60 E. 96th Street, New York City
Runyan, William A.	23 Romney Place, Scarsdale, N. Y.
Russell, Gordon B.	Eton Lodge, 6E, Scarsdale, N. Y.
Rutkovsky, Aaron	1254 Grant Avenue, New York City
Rutledge, George W.	91-28—90th Street, Woodhaven, N. Y.
Ryan, Stephen A.	22 Dahlia Avenue, Baldwin, N. Y.
Sair, Donald C.	646 Central Avenue, Brooklyn, N. Y.
Saltzer, Paul	20 Post Avenue, New York City

Saltzman, Isidore	4412 Snyder Avenue, Brooklyn, N. Y.
Schachter, J. Kenneth	365 Westminster Road, Brooklyn, N. Y.
Schanfein, George	1155 Grand Concourse, New York City
Scheuer, Alfred A.	600 W. 11th Street, New York City
Schiller, Willard R.	77 Thompson Avenue, White Plains, N. Y., c/o H. A. Sturmer
Schindall, Henry	109 Post Avenue, New York City
Schlitt, Irving	1269 Ocean Parkway, Brooklyn, N. Y.
Schmitt, Arthur J.	38-25—222nd Street, Bayside, N. Y.
Schneider, Benjamin	1325 Walton Avenue, Bronx, N. Y.
Schulman, Ira J.	11 Vermilyea Street, New York City
Seewald, Saul	311 E. 3rd Street, New York City
Segal, Beulah	260 West End Avenue, New York City
Segal, Saul	72 E. 97th Street, New York City
Seitelman, Leo H.	68 Columbia Street, New York City
Semel, Lewis H.	245 Lenox Road, Brooklyn, N. Y.
Serlin, Howard H.	196 Rockaway Parkway, Brooklyn, N. Y.
Severs, Charles A.	1355 Parsons Boulevard, Whitestone, N. Y.
Shapiro, Herman M.	600 W. 178th Street, New York City
Shaw, Robert A.	810 Devon Street, Arlington, N. J.
Shechet, Samuel	67-28 Juno Street, Forest Hills, N. Y.
Shechter, Irving	770 Garden Street, Bronx, N. Y.
Shmalkin, Jack	530 W. 136th Street, New York City
Siegel, Sidney H.	1510 Carroll Street, Brooklyn, N. Y.
Silver, Michael	100 N. La Salle Street, Chicago, Ill.
Silverman, Jacob	71—7th Avenue, Brooklyn, N. Y.
Silverman, Samuel	2009 Cruger Avenue, New York City
Silverstein, Jacob	142 Tehama Street, Brooklyn, N. Y.
Simpson, Ralph P.	1620 E. Roma Avenue, Albuquerque, N. Mexico
Sindel, Samuel	1193 E. 9th Street, Brooklyn, N. Y.
Solin, Harold S.	9720 Kings Highway, Brooklyn, N. Y.
Starkman, George B.	126 Manhattan Avenue, Brooklyn, N. Y.
Starkman, Samuel	1886 Harrison Avenue, New York City
Staunton, Robert E.	300 Kenwood Avenue, Rochester, N. Y.
Steers, Philip L., Jr.	28-22—36th Street, L. I. C., N. Y.
Stelter, Frederick W.	335 Milton Road, Rye, N. Y.
Stevens, Russell E.	42-16—80th Street, Elmhurst, N. Y.
Storch, Clifford	2 Regent Drive, Lawrence, N. Y.
Studt, Harry A.	89-37—198th Street, Hollis, N. Y.
Takacs, Joseph A.	128 Ambrose Street, New Brunswick, N. J.
Tardino, Victor J.	109-15—127th Street, Richmond Hill, N. Y.
Tarlow, David H.	99 Ocean Avenue, Brooklyn, N. Y.
Tamarin, Sanford	105 E. 177th Street, Bronx, N. Y.
Tannenbaum, Alvin G.	320 W. 87th Street, New York City
Tashman, Isaac	731 Gerard Avenue, New York City
Taylor, Henry L.	67 Wall Street, New York City
Taylor, Jerome H.	286 Fort Washington Avenue, New York City
Vandyck, Edward B.	2672 Boulevard, Jersey City, N. J.
Van Horn, Henry L.	88 North Spring Garden Avenue, Nutley, N. J.
Varet, Guster	888 Montgomery Street, Brooklyn, N. Y.
Walker, Louis	29-43 Gilmore Street, East Elmhurst, N. Y.
Waller, Saul	163 Hewes Street, Brooklyn, N. Y.
Wanty, Edward D.	84 City Boulevard, Staten Island, N. Y.
Warren, John L.	173-05—113th Avenue, St. Albans, N. Y.
Waxberg, Ira L.	49 Clarkson Avenue, Brooklyn, N. Y.
Weinberg, Herbert	2137—73rd Street, Brooklyn, N. Y.
Weinman, Benjamin	1404 Noble Avenue, New York City
Weisbach, Gamliel	1659—47th Street, Brooklyn, N. Y.
Weiss, Jerome	723 E. 5th Street, Brooklyn, N. Y.
Weitz, Nathan	1212 Newkirk Avenue, Brooklyn, N. Y.
Wexler, Bernard	1393 Lexington Avenue, New York City
White, H. Edward	1056 Arlington Avenue, Plainfield, N. J.
Whiting, Herbert G.	100 Clark Street, Brooklyn, N. Y.
Williams, Lewis E.	263 Stafford Avenue, Syracuse, N. Y.
Willson, James D.	2160 E. Tremont Avenue, Bronx, N. Y.

Willson, Robert H.	333 Second Avenue, Lyndhurst, N. J.
Witten, Ben	424 Hopkinson Avenue, Brooklyn, N. Y.
Wood, Alfred A.	738 St. Marks Avenue, Brooklyn, N. Y.
York, Joseph	589 E. 55th Street, Brooklyn, N. Y.
Zemsky, Bernard L.	1011 Walton Avenue, New York City
Zieff, Louis H.	1002 Foster Avenue, Brooklyn, N. Y.
Zier, Jacob A.	394 E. 21st Street, Brooklyn, N. Y.
Zirke, Edward L.	200 E. Mosholu Parkway, Bronx, N. Y.
Zivetz, Harold	2052A—72nd Street, Brooklyn, N. Y.
Zobler, Bernard	1505 Macombs Road, New York City

The Significance of the TNEC Study

By SENATOR JOSEPH C. O'MAHONEY

MR. CHAIRMAN, Gentlemen of The New York State Society of Certified Public Accountants:

I am very happy indeed to have the opportunity of coming here in response to the invitation of your officers to discuss the work of this Committee, of which I was Chairman, because, in the first place, I can think of no audience that could be or ought to be more interested in the work of this Committee than certified public accountants. I can think of no audience that ought to know more about the subject matter with which we are dealing and, in the second place, I can think of no audience which I would rather have "on my side" than the certified public accountants of the nation in any effort to stabilize our economy.

So, following a suggestion which was made at dinner this evening by one of your officers—I shall not say which—perhaps I ought first to call your attention to the fact that I am a member of the sub-committee of the Senate Judiciary Committee which is now studying the administrative law bills. Many of you doubtless know that one of these measures contains a provision to the effect that no person may be represented before any administrative bureau of the Government except by a lawyer. I want to say I don't think that provision will stand. I think the certified public accountants will be permitted to retain their clients and I, for one, will do my very best to bring that about.

Now with that bid for your sympathy and support, let me say a word about the Committee itself: the Temporary National Economic Committee. This body was created about three years ago by a resolution which I introduced in the Senate to carry out a recommendation made by President Roosevelt for a broad-gauged study of economic problems and of what is called "concentration of economic power and wealth." When I introduced the resolution I called it the "Temporary National Economic Committee" with emphasis on the word "temporary" because I wanted to make certain that it would come to an end and that it would not be another agency which would seek to extend its life and its powers; so when I come before you this evening I come as the ex-chairman of a committee which has already ceased to exist by operation of law.

This Committee was composed of twelve members: three members of the Senate, three members of the House and six members from certain executive agencies. The members of the Senate and the members of the House were appointed in accordance with the general provisions by which all Congressional committees are named—that is to say, it was a non-partisan committee, representing both parties.

Senator Borah, Republican, of Idaho, was selected when the Committee was first organized to represent the Republican members of the Senate. Congressman Reece, of Tennessee, was selected by the Speaker of the House of Representatives to be the Republican member of the House branch. Congressman Reece served throughout the life of the Committee and was a very efficient and effective member. As a matter of fact, he was the chairman of the reading committee which was ap-

Presented before the Annual Meeting of the New York State Society of Certified Public Accountants, New York City, May 12, 1941.

pointed to examine various monographs which were published by the Committee.

All in all we have issued about eighty-four volumes, half of them verbatim reports of the hearings which we held and the other half monographs written by the best experts that we could find upon various phases of the economic problem.

The executive agencies which were represented on the Committee were those which have most to do with our industrial and commercial organizations: The Department of Justice, which of course is charged with the responsibility of enforcing the so-called "Anti-Trust Laws;" the Treasury Department, which has to administer the tax and fiscal laws as well as to collect taxes; the Department of Commerce, which was created by Congress for the purpose of fostering and stimulating business; the Department of Labor, which was created by Congress for the purpose of fostering the interests of the workers; the Federal Trade Commission, set up by law almost twenty-five years ago to enforce the Federal Trade and the Clayton Acts; and, finally, the Securities and Exchange Commission, which was so recently created that I don't need to say anything about it.

Now when any member of these various agencies presented a case to the Committee, that story was being told, as it were, to a jury of twelve persons of whom only one had had anything to do with the preparation of the evidence; and when, as in many instances, the presentation was made by the Committee staff, then all twelve members were sitting there as judges to hear for the first time the evidence which had been gathered by our experts. In order to make certain that industry itself should have the opportunity to present its view of the economic problem, we issued an invitation to industry to come to Washington and tell its own story.

Well, of course when we were created, a great many announcements and prophesies were made that the purpose of the Committee would be to impede and harass business. It was freely predicted that we were going to conduct a witch hunt—that our sole purpose was to embarrass the business community of the nation—so a great many industries didn't take advantage of the opportunity which was given to them. Happily some did. The oil industry, for example, under the leadership or sponsorship of the American Petroleum Institute, prepared a long and thorough hearing; I think it took about two weeks. Now the preparation of that whole presentation was undertaken by the oil industry itself; the TNEC had nothing whatever to do with the preparation. When the witnesses came before the Committee of course we asked them a great many questions. The steel industry also answered our invitation and presented its case in a similar manner.

In other words, what I am trying to do is to show you that we really endeavored to carry on an objective study of the whole economic system in order that we might assemble basic, factual material to which the public, leaders in business and leaders in government could turn with confidence that they were obtaining a story that was told as impartially and as objectively as it could be done by persons intimately acquainted with the subjects under discussion.

The Committee went out of existence by operation of law on the third of April. All of its reports save one or two—two, to be exact—have been printed and are now available from the Superintendent of Documents at the Government Printing Office. More than 250,000 copies of our various volumes have already been circulated to people who asked for them. They have not been distributed for purposes of propaganda, but they have been circulated to those people

who wrote in and asked for them, or to those people who have written to the Superintendent of Documents and purchased them, persons who are genuinely interested in the economic problem. Indeed, several of our hearings are now being reprinted, because the demand has been so great that the original printing has not been sufficient to meet the requests that were made.

On the thirty-first of March I submitted to the Congress and the President the final report and the recommendations of this Committee. I am conscious of the fact that these recommendations were a disappointment to a great many people. They were a disappointment to those who had predicted that the Committee would bring in some sort of a revolutionary program for reorganizing our whole system of commerce and our industry; they were disappointing to those who hoped and predicted that perhaps the Committee would bring in some plan for the regimentation of industry by the Government. The report and the recommendation contained very little that was new and amounted only to a re-assertion of what I believe most Americans will agree are fundamental principles of the American concept of how business and government should be run.

We made a declaration, for example, for the preservation of free private enterprise. We declared that free private enterprise should be protected from suppression by arbitrary power whether that power is exerted by private aggregations or by public authority, because fundamentally the members of this Committee believe in the American system, and the American system — which includes not only political liberty but economic freedom—is now facing its greatest test.

As we meet here tonight I have no hesitation in saying that mankind is going through one of the most grave and serious crises in all its history. A question which we must all answer for ourselves and for our children is this: What sort of a world do we want to live in?—What sort of a world do we want to bequeath to the next generation? I know what the answer will be from most Americans. The answer is, that we want a world in which men are free. But if we read the newspapers, if we listen to the radio—if we pay attention to what is going on in the world today—we must know that a monstrous evil has come into our time which threatens the suppression of freedom, an evil which declares that the capitalistic system and the democratic system are outmoded and should not be permitted to survive.

So what are we going to do about it? I think before we can intelligently answer that we must inform ourselves as to the conditions which have brought about such a state of affairs that in 1941—after nineteen centuries of Christianity—all of the products of science and invention are being used in an utterly ruthless manner to destroy life. Doesn't it seem strange that mankind has not progressed any further than that—that the greatest triumphs of science are being used not only to destroy everything that our civilization has wrought in the material way, not only to snuff out human life, paying no attention to whether that life is in the body of a woman or in a child, in a combatant or in a non-combatant, but to destroy also the moral, religious and ethical values on which free society is based? That is the crisis that confronts us.

The study of the Temporary National Economics Committee was undertaken, in a sense, to solve this riddle and, to my mind it illustrates very clearly what is wrong with the world. It illustrates that concentrated power has been developed throughout the world and is submerging and undermining the capacity of people to take care of

themselves locally either economically or politically. The economic and political independence of local communities has been undermined. How does it happen that the mayors of cities and the governors of States are beating a path to Washington with their hands out for WPA allocations to create work in local communities which are not self-sufficient and cannot provide employment for their own inhabitants? How does it happen that business leaders, heads of great corporations, also beat a path to Washington, to the office of the RFC, with their hands out for loans from the Federal Government—loans of non-existent money—in order that they may stay in business or expand and provide opportunity for the masses? It is because, in the modern world, economic organization has utterly destroyed the geographical boundary. Modern business knows no geographical boundary because it is carried on by organizations which are not confined by state lines. The mark of our time has clearly been demonstrated by the hearings before our Committee to be Organization. People in our day cannot obtain the things that they want for their day-to-day life except through the operation of large economic groups. The day of the individual is gone.

Take transportation, for example. It is wholly a matter of group enterprise. Large aggregations of capital and huge armies of labor must be assembled under one management if the transportation the modern world demands is to be provided. Electric light and power and communication are completely the work of organization. At one of our hearings it was shown that the communication and power industries are one hundred percent corporate activities, just railroad transportation is exclusively a corporate enterprise.

Take mining. I come from a western State. The whole Rocky Mountain West was founded by pioneers who went out there as individuals to dig for gold and other precious minerals, but today only about eight percent of the mining industry in America is carried on by individuals as such. And so it goes, all through our industry. Agriculture is the only business in which men are engaged which still remains an activity of individuals. Only eight percent of the agricultural output of this country is the product of corporate enterprise; ninety-two percent of agricultural output is individual product.

I could go down the list of one industry after another, showing how this change from individual to corporate enterprise has taken place, but I am not going to take that time tonight. I shall be content to mention one or two facts which illustrate the point that the change from an individual to a corporate economy has been accompanied by a tremendous concentration of economic power—a tremendous concentration of the ownership of our national assets.

Up until the thirty-first of March, as a result of the national defense drive, the Government had given out in contracts for national defense totaling about thirteen billion dollars. An audience of certified public accountants can readily visualize that figure, I suppose, but do you know that there are only two States in the Federal Union—only two—the entire assessed value of which, real and personal, is greater than thirteen billion dollars? In other words, forty-six separate States—sovereign States of the Federal Union—have assessed values within their boundaries considerably less than the thirteen billion dollars which has been awarded by the Government in defense contracts.

Now these contracts have been given out—necessarily so—to organized industry. There was no other possible way of handling them. They were given to the industries and the corporations which were

ready and willing immediately to engage in the production of the commodities that were needed, because speed was essential. Well, you will be interested to know that, of that almost thirteen billion dollars, thirty-five States in the aggregate received less than thirteen percent of the total, four States received over thirty-nine percent of the total; add two more States to those four and we have six—six States out of the Federal Union had 53.75 percent of the thirteen billion. Take those six States and add nine others, making a total of fifteen States—the industrial States of America—and we find that those fifteen States received 82.25 percent of the total of the thirteen billion dollars.

Is it any wonder that members of the Senate and members of the House in Washington are running down to the War Department and to the Navy Department and are standing up on the floor of the Senate and of the House and saying, "Why can't we get some of this work in our State?" The States have lost their economic independence; they cannot provide the work that the modern worker needs, because modern industry is concentrated.

When our grandfathers were living, or at least our great-grandfathers (taking transportation, for example), every one of them could build in his own farmyard the vehicle that gave him the sort of transportation he wanted or needed. He could buy four wheels from the village wheelwright, take them back to the farm and, with hammer and a few other tools, he could build a wagon which, when he hitched it to "Old Dobbin," was sufficient transportation for him and for his family. But that is not the sort of transportation we want and we need. The transportation that this generation needs is the automobile, and the automobile can be produced only by large aggregations of capital and large armies of labor, just as the commodities and the instruments that the nation needs for national defense can be produced only by huge collective enterprise.

Now then, what is the effect of this upon our system of free enterprise, and what do we mean by "free enterprise?" Commonly that word is used to denominate even great aggregations like the American Telephone & Telegraph, for example, or one of the big insurance companies —let us say the Metropolitan Life Insurance Company, since I am in New York. The assets of the Metropolitan Life Insurance Company, like the assets of the A. T. & T., amount to almost five billion dollars, and there are only ten States in the Federal Union each of which has assessed valuation, real and personal, in excess of five billion dollars. But are these private enterprises? They are not government enterprises, but how private are they? How many stockholders in A. T. & T.?—How many bondholders?—How many employees? Why, an organization of that kind is just as public as a city. It is brought into existence just as a city is brought into existence: by a charter from some State. It could not exist without that permission granted by some State. It could not exist, in other words, except by a contract between the people, through their government, and the individuals who want to carry on this collective enterprise in corporate form.

Let us take the Metropolitan Insurance Company. It is a mutual company, owned by the policyholders, and presents a very interesting illustration of our economic system, an illustration brought out during the TNEC hearing on insurance, which I mention here because it is a landmark of the city of New York. You are familiar with the Rockefeller Center. The Metropolitan Life Insurance Company has probably the very best real estate mortgage in

the world on the Rockefeller Center. It loaned the Rockefeller family the money with which the Rockefeller Center was built. But where did that money come from?—It came from tens of thousands of little policyholders who, by their installment contributions — their payments of premium—saved the money that one of the richest families in the United States and in the world used for the construction of this great business center; illustrating how organization takes the savings of the individual to carry on a huge organizational enterprise.

Let me give you another example of how this system works—the organized system: We were studying the effects of patents in the glass industry, and there came before the Committee the head of the Hartford Empire Company, a corporation with offices in Connecticut, who told the story of the patents held by that company. He was asked many questions about how those patents were operated. He told the story how the Hartford Empire Company, having obtained the patent rights to a certain machine used for the manufacture of milk bottles, granted licenses for the manufacture of milk bottles and, in issuing those licenses, prescribed for the licensee just how many milk bottles could be manufactured and the price at which they should sell. In other words, the licensee, under this system, was permitted by the holder of the patent to sell only so many bottles and at such and such a price.

There was production control and price control by corporate direction. So I said to Mr. F. Hopkinson Smith, head of the company thinking to be a little facetious, "So you're running an AAA in milk bottles, Mr. Smith?" He said, "Yes, but it's intelligently administered."

Well, I had to laugh, but a little while later the next witness came along, and he was telling the Committee how he had been forced out of business after a controversy with the Hartford Empire. He had set up his business in Texas. He was using a machine to make milk bottles which was patented to an altogether different outfit from the Hartford Empire. He was not using their machine, he was using another machine—and the United States Patent Office issued a patent to it, you understand. Well, he had been running it a couple of weeks when he received a polite letter from Hartford Empire Company, saying, "Won't you be good enough to come up to Hartford; we'd like to talk over the milk bottle industry with you?" He read the letter and threw it in the wastebasket. He said, "I can run my own business." (How often have you heard businessmen say that: "Nobody's going to tell me how to run my own business?")

Well, a couple of weeks passed and he received another letter. This time the letter was not quite so polite. It said: "We wrote you on such and such a date, and we have not heard from you. According to our reports, while you are not using our machine there is some danger that you may be infringing our patent. Won't you come to Hartford?" So he went to Hartford and he sat down there and discussed with the officials there this problem of production control and price maintenance. The result was that he could not meet the requirements which were laid down by the Hartford Empire Company and engage in the business profitably because he could not stay in business unless he continued to undersell the manufacturers of Hartford Empire milk bottles who were operating out of St. Louis; so he closed his doors and went out of business because he did not have the resources to fight a lawsuit all the way to the Supreme Court.

That seemed an interesting story, so I said to him, "Where did you get the capital with which you

started this free private enterprise in Texas?" "Oh," he said, "that was subscribed by a bunch of my friends down there. We got together. We had to raise only about twenty-five thousand dollars and didn't have much difficulty about that." I said, "Where did the workers come from—the men you employed in your factory?" "Oh," he said, "they were all Texans—all native Texans—except one, and that fellow had lived down there for fifteen years." "Well," I said, "where did you get the material that you were using to make milk bottles with—not the machinery, but the materials?" and his eyes brightened up and snapped, and he said, "Why, Senator, we have the best deposit of glass sand in America right there on the borders of our town;" so I said, looking at Mr. F. Hopkinson Smith, "It amounts to this: that Texas capital couldn't employ Texas labor to develop a Texas natural resource without getting a certificate of convenience and necessity from a private company at Hartford, Connecticut."

Now of course there was no answer to that question; it answered itself. Through the patent law—which is a Federal grant stated in the Constitution of the United States as intended to foster the development of science and the natural arts—through such a Federal grant, private companies were able to impose regimentation upon one industry.

Is that unusual?—I wish you could read all the stories told in our hearings.

I would like to tell you the story of brass and beryllium copper. Beryllium copper—a new discovery; the method of hardening copper, lost for centuries, discovered by a scientist who learned how to mix the metal beryllium with copper. The American Brass Company, a subsidiary of the Anaconda Company, maintained such a strangle hold upon the industry that beryllium copper could not be sold at a price which would make it competitive with brass.

Now is that the only thing? Have you heard the story of magnesium and aluminum? Magnesium is manufactured out of natural resources found in brine; no secret about magnesium—about the source of it. It is manufactured under a patent and yet, under an agreement between the Aluminum Company and the Magnesium Company, the price of magnesium was always kept in a steady ratio to the price of aluminum—a ratio based upon the weight, apparently, because magnesium is exactly one-third the weight of aluminum. So, in order that magnesium could not invade the field of aluminum, that price ratio was maintained by the use of the patent system and agreements. Organized industry maintaining price and controlling production!

Here is another interesting story: The production of aluminum in the United States at the beginning of the defense effort was something over four hundred million pounds in a year. When Hitler came into power in Germany the production of aluminum in Germany was less than one hundred million. Today Germany is producing something like seven hundred and fifty million pounds because, when Hitler came into power, he refused to accede to the world cartel agreement by which the aluminum market of the whole globe had been divided and restricted.

What is the effect of this sort of thing upon the private enterprise system? It is very clear. It developed, when we entered the defense program, that the amount of aluminum produced was not sufficient for our defense needs. It was essential that we should have vastly more aluminum. In order that we could have new products of aluminum it was necessary that there be new power—new electric power. Sitting

on the Appropriations Committee of the Senate, I was one of those who voted, at the request of the Aluminum Company for an increased appropriation for the TVA, so that we could build a new Government power dam for the Tennessee Valley Authority to furnish Government power to the Aluminum Company of America in order that it might produce an additional amount of aluminum. And this appropriation, let it be known, was an appropriation that came out of the same deep deficit that creates the huge national debt.

But that is not the whole story. No private company would engage in competition with the Aluminum Company—naturally not. Who is going to put up fifty million dollars to buy a battle with a giant corporation like that?—Nobody, naturally. You wouldn't blame anybody for not wanting to do it, particularly when the tax schedule of the Government is so great that if anybody makes any profit most of the profit goes off into excess profits taxes. So private capital would not go into the business of producing new aluminum. What was the result?—Well, the R. J. Reynolds Company went down to the RFC and borrowed the money from the RFC to build a new plant up in the State of Washington, borrowing from the same deficit—non-existent money—from the Treasury of the United States, to build a new "private" plant. Then, in the Appropriations Committee, we appropriated another five, ten or fifteen million (I have forgotten what the figure was) to expand the Bonneville public project to furnish public power for the Reynolds Company in order that it could compete, by Government money, with the Aluminum Company.

I could stand here all night, gentlemen, reciting incident after incident of this character. If I were to keep it up I suppose somebody would go out of the room and say, "Why, that fellow is just a Bolshevik; he's just condemning business". I am not condemning business, I am merely describing what the new organization of industry is and how it operates.

Some of you who were at Atlantic City several years ago when I was invited to talk to the certified public accountants in a regional meeting may remember what I told you about oil and about how one day, when Mussolini was getting ready to begin the invasion of Ethiopia, I picked up a copy of The New York Times and saw on the front page two stories, one from Rome and the other from London. The Rome story said, in a few words, "Representatives of the Standard Oil Company of New Jersey were here today negotiating with Mussolini and the Fascist government for a contract to supply oil for the Italian army from the Standard Oil fields in Roumania." Oil from Roumania for the conquest of Abyssinia! By a curious coincidence, on the same page was the despatch from London that representatives of the Standard Oil Company of New York were there negotiating with the representatives of Haille Selassie for a contract to develop, if and when Ethiopia retained its independence, the prospective oil lands of Ethiopia.

Now the significance! The Constitution of the United States says, in so many words, "No State shall enter into any contract with any other State or with any foreign government without the consent of Congress;" and here two great companies, one organized by the State of New Jersey and the other organized by the State of New York, were doing that which the Constitution of the United States prohibits to the States which created them. Of course that prohibition in the Federal Constitution was undoubtedly intended to restrain the States from entering into political contracts

and agreements; but when all is said and done, in the modern world, furnishing oil to run the modern war machine to conduct the conquest of an independent nation comes pretty close to being a political contract. But aside from that, we see how vast industrial organization has become.

Now of course there again I am not suggesting for a moment that there was anything wrong in what was done; I am not criticizing either of these oil companies. I am just calling attention, in the most emphatic way that I can, to the nature of the modern corporate organization—the business organization. It dominates our economy. It has extended beyond the boundaries of the States and of the Federal Government. It is in many instances a world-wide development.

Take, for example, the embargo which this country recently placed upon the shipment of aviation gasoline to Japan. Now we all know the purpose of that ban, but observe: an embargo by the Government of the United States upon the exportation of oil from United States territory obviously does not apply to areas outside of the United States which are not within the jurisdiction of the United States. The Standard Oil Company of California and the Texas Company, for example, are the owners of large oil resources in the Persian Gulf and in Arabia. Now I have no doubt that if the Government of the United States as a policy should undertake to restrain the delivery of oil from any property of any American company to any other power, if it should make such a request of these oil companies, it would be granted. I make no reflection whatsoever upon the patriotism of the gentlemen who run these companies; I am merely pointing out again that modern business has become a world-wide business.

What is the meaning of it all? It just means that when business is organized, as it necessarily must be in our time because we cannot get the things we need except by organization, when an organization is brought about it is obviously impossible for individuals to protect their own economic security in an organized economic world by individual action. Is there any doubt about that?

Let me give you some figures from the statistics of income of the United States published by the Treasury Department. In 1937 there were approximately 228,000 companies which, in filing their income returns with the Federal Government, reported assets of $50,000 or less each; 228,000. They represented 55% of all of the companies which filed returns. Yet they owned only 1½% of all the corporate assets. At the other end there were 394 companies, 1/10 of 1% of the total, and their returns showed that they owned 45% of all the corporate assets.

The same degree of concentration is apparent in income and in savings. Sixty-five percent, according to the very best information that we could get, of all American business is carried on by corporations, and most of these corporations which carry on that business are national in scope and people living in local communities are not able to protect themselves when dealing with them.

What then do we mean by "Free Private Enterprise?" What do we mean by "The American Way of Life?" What does "Our American Principles of Business and Government" mean?

We are all agreed that the people have the right to govern themselves. They have the right to elect the President and United States Senators and members of Congress; they have the right to elect the governors of States and the State legislatures. Certainly this Government belongs to the people. As Abraham

Lincoln so eloquently put it in his Gettysburg Address: "A government of the people, by the people and for the people." But why was this Government of ours established?

Read the Declaration of Independence: 'Governments are instituted among men, by men, in order to safeguard certain unalienable rights: Life, Liberty and the Pursuit of Happiness.' Those are the important things. Organization of government and organization of business have no justification except that they serve the interests of the people, life for people, liberty for people, happiness for people! Business can have no existence unless people buy the commodities and the services which business offers. Certified public accountants would have nothing to do if they were not able to sell their services to business, and those businesses would have nothing to do unless the goods and services that they produce were purchased by the people. But, under a system which has permitted the degree of concentration to which I have called attention, we have found the extraordinary situation in 1940 that we have great numbers of unemployed upon the one hand, and great balances of unemployed capital upon the other, and the two cannot get together because we have not had the will to organize business and industry in such a manner as to create a stable income for the masses. Unless you do that, you are not going to be able to pay off the national debt, are you?

We have a national debt of forty-five billion dollars now, and we have raised the debt limit to sixty-five billion. Some experts in Washington tell us we may look forward to a ninety billion debt. That is borrowed money, a charge against the future. The Treasury Department has suggested that one-third of this new war debt—this defense debt, perhaps I should call it—shall be paid by taxation, and the public I think is very willing to bear that burden; but that is only one-third of it. The rest of it is what?—It is a charge against production by people in the future.

Our one principle that we must clearly understand is that money of itself has no significance except that it is a measure of value; and that the national income is measured by the production which the nation achieves. Our trouble is that we have seemed to have lost sight of this fundamental that money is no good and the national debt cannot be paid unless we put people to work producing. Because we have overlooked these principles, we have been developing a state of class consciousness in the United States and in the world in which two classes seem to be quarreling with each other. Over what?—Over getting a share in the national debt.

Our mistake is that we have been following a policy of restricting production in order to maintain price. The AAA program in milk bottles was followed by the Department of Agriculture; it was followed before that by farmers burning their products. You read about the farmers of the South burning their tobacco crops in order to maintain the price—about others burning corn because they could not afford to sell it, and others burning wheat. We have a world in which there is too much wheat, too much corn, too much cotton, too much coal, too much oil and, on the one hand, millions of people looking to the Government for a "hand-out" in order to keep body and soul together and, on the other hand, businessmen big and little turning to the Government for loans from the RFC.

So I say to you, gentlemen of The New York State Society of Certified Public Accountants, I have come to the conclusion that perhaps we have not been running our "boat" in the right direction. Perhaps, in-

stead of fighting with one another over a restricted production, if we would recognize the fact that we will have to increase production in order to distribute plenty to all of the people—if we recognize the fact that people come first—and then undertake to get together in tolerance and good will to increase production, we shall be able to pay off that debt, preserve democracy and the free enterprise system and establish prosperity for all.

If you wonder what is going on in Europe, you will find the explanation in exactly this same problem. The present world crisis is due to the failure of leadership—leadership in business, leadership in Government—to answer the question of distributing the abundance which nature provides, in such a manner that all may share in it.

So the TNEC has recommended to you that conspiracies in restraint of trade should be abandoned by business; that those businesses which refuse to abandon such conspiracies ought to be compelled to abandon them; and that the Government, by a wise tax policy should encourage those who have capital to invest, should foster new enterprise. We recommend that there should be a reduction of taxation upon profits derived from new independent enterprise so as to stimulate local activity and local employment and local investment of local capital.

And then we have recommended that there should be national standards for national corporations. Do I need to talk to a group such as this about standards for corporations?

You know the story of the American Tobacco Company about as well as anybody, I think. How the directors of that company got together (the management) and paid themselves a bonus and gave themselves valuable stock rights so that the president of the company, in the year 1929 or '30—I have forgotten which—collected as a gift from his company something over a million dollars in a single year in addition to his salary of one hundred and forty-eight thousand dollars. Then the officers were sued, the company was sued and a judgment was handed down by a certain Judge Manton which said that in such a case against corporate directors the court would not intervene unless there were a definite showing of fraud. The Supreme Court of the United States upheld the Circuit Court of Appeals with respect to the bonus but not with respect to the stock rights, and remanded the case. Then the case was settled out of court because, as I understand the story, five hundred thousand dollars were paid to the stockholder who had brought the suit. If my information is correct, that settlement sum did not come from the officers who got the bonus, it came out of the treasury of the company.

I don't have to tell you gentlemen of the devices which can be used in corporate accounting because there are no national standards. I don't have to tell you about Hopson and the Associated Gas & Electric Company; and I wouldn't dare, in this group, to mention the McKesson & Robbins case.

Let me say this: After almost three years of intimate association with the biggest business of America, I am glad to testify here and everywhere that the great majority of business men are honest and decent and patriotic and they want to do the right thing. When I recite some of these cases where abuses have crept in, I do not mean to be understood as characterizing all business —not at all. I cite them to show to you that there is no national law to enforce national standards of trusteeship, of fiduciary responsibility in the organized national business of our time. In the national and international organization of

commerce and industry the door to fraud and conspiracy and abuse of all kinds is open.—It ought to be closed. It ought to be closed if you are going to maintain the free enterprise system, if you are going to maintain the capitalistic system, because hear me, gentlemen, the capitalistic system means only the right of people to own property and unemployment of men and money is undermining that right.

The great dictatorships of Europe are denying the right of private property. They are saying that the individual is not the controller either of himself or of the state. The individual is the slave of the state according to them, the individual is a cog in the state machine. His life, his liberty, his happiness are dependent solely upon what the state says. The dictatorships of Europe have come into existence because the cartel system was operating in Europe destroying individual economic freedom before it began to expand over here. Men have turned to central authority in Europe and said, "Take our liberty, take our freedom. Do with it as you will, so long as you give us a job."

Here, class consciousness is likewise growing; so the TNEC tells you, "Let us recognize the necessity of having the people's government, which was given the power in the Constitution to regulate commerce among the states and with foreign nations—let us have the Federal Government—establish the responsibility of corporate organization." That is not putting a "dog collar" around the "neck" of business. That is to set business free. All you have to do is look back upon the history of the last fifty years to know that the failure to do that has brought about the steady expansion of the powers of the Federal Government.

The Interstate Commerce Act was passed in 1887, when the railroads became so great that they were too big for the separate States to regulate in the public interest. The Federal Trade Commission was set up in 1916 or '17. In 1921 Warren G. Harding signed the Packers and Stockyard Act which conveyed to the Secretary of Agriculture the power to regulate stockyards and packing houses. So I could go, all the way down the list. As business expands, so also expands the power of government. If you want to escape regimentation by government you must first stop regimentation by all-powerful "private" business. To do that, my own personal recommendation has been that there should be, now, a national economic conference to which should be called the representatives of industry, the representatives of agriculture, the representatives of labor so that all may gather together to work out an economic constitution which will preserve the free enterprise system. Mark my words, gentlemen, political liberty depends upon economic freedom, and when men are unable by their own unaided efforts to support themselves, they will turn to some agency or some method or some form of government to gain that support.

So, in this great democracy of ours, when we are talking about preserving The American Way of Life, let us remember what that American Way of Life means. It means opportunity to work and the right to possess the fruits of toil—a right which cannot be taken away from individuals by any group or race, by any party, by any class or by any individual. The American Way of Life is the democratic way of life which will preserve political liberty and the institution of private property.

Accountants' Relationship with Lawyers

By Saul Levy, C.P.A.

ACCOUNTANTS have always been aware of the close relationship between their own field of activity and that of the law. In dealing with financial facts and business transactions, we are necessarily dealing with legal relationships and property rights. Furthermore, even the simplest set of records which any of us may devise is so constructed as to enable someone to discharge his legal obligation to account to someone else for property placed in his custody or for the results of devoting that property to some income-producing use.

In these modern times the widespread use of commercial credit based upon representations as to financial worth and operating results places practically every business owner or manager in some sort of fiduciary relationship to the outside business world with respect to the conduct of his business. Federal, state, and local taxes in increasing variety and growing complexity have given governmental subdivisions a direct financial interest in the results of business enterprise, to such an extent that it is fair to say that because of this alone all business activity has had imposed upon it a very definite obligation to keep proper financial records—to the end that it may account for the results of its operations to someone outside the ownership or the management of the business.

In order to point out how universal in modern business this actual or potential legal obligation to account is, I want particularly to stress the fact that this applies even to the small simple unit of business enterprise. It is hardly necessary for me to dwell upon the situation in which a huge corporation, owned by a hundred thousand or more stockholders or financed by thousands of bondholders, is managed by a small group of directors and executives who, in the aggregate, may own but an infinitesimal portion of the corporation's total outstanding securities.

In the situation where an executor, guardian, trustee, or other fiduciary presents an account of the transactions in which he has engaged for his beneficiaries, the law often refers to the fiduciary as "the accountant," namely, the person who seeks to discharge his obligation to account to others. It is curious that we as a profession have also come to be known as accountants. This suggests the thought that public accountants are not merely those technically equipped in the science of accounts but those who serve the function of aiding members of the public properly to discharge their legal obligation to account to others for their business and financial activities.

I do not mean to imply that this is the sole function of the public accountant. Management will always use accounts for the purpose of controlling and measuring its own activities in the interest of business efficiency and managerial guidance. Public accountants will always serve management in devising and installing systems of accounts, analyzing and criticizing management's cost calculations, and auditing and reviewing accounting statements of management. Such services will be rendered by accountants for the direct benefit of management itself. But public accountancy will grow in importance as a profession as it aids management in discharging its obligation to account to its stockholders,

Reprinted from the July, 1941, issue of the Journal of Accountancy.

its creditors, to the taxing authorities and, in recent times, even to its employees and to the general public. It is through expressing an independent professional opinion with regard to the financial position of business enterprise and its operating results that the public accountant functions in a capacity which confers upon him a quasi-official status.

Management of business has its own primary responsibility for keeping adequate and accurate accounts, and the financial statements issued to others involve representations of fact on the part of management. Accountants do not relieve management of its own responsibility in this respect, but as a professional group we do render an important collateral and supplementary service in publishing our own independent opinion concerning management's representations. This function of the public accountant was clarified by the Securities and Exchange Commission in a recent case, when it stated:

"The fundamental and primary responsibility for the accuracy of information filed with the Commission and disseminated among the investors rests upon management. Management does not discharge its obligations in this respect by the employment of independent public accountants, however reputable. Accountants' certificates are required not as a substitute for management's accounting of its stewardship, but as a check upon that accounting."

This public aspect of the practice of public accountancy brings to mind an interesting parallel suggested by the legal profession. Lawyers are often referred to as "officers of the court," in the sense that it is their function to aid in the administration of the law. They serve the public by advising their clients as to their legal rights and obligations, and they facilitate the effective administration of the law by representing their clients in their contact with the law. However, we should never lose sight of the one essential difference between the relation of the lawyer and that of the public accountant to their respective clients. The lawyer is an advocate, and avowedly represents his client's immediate interests within the framework of the law. The public accountant occupies a different position when he undertakes to express an independent professional opinion. He is not an advocate, for he has assumed a position independent of his client and has thus accepted an obligation to those who may rely upon his opinion. If a lawyer is to be regarded as an "officer of the court" despite his single-minded devotion to his client's interests, how obvious it should be that the public accountant has acquired some sort of public status when he proceeds to issue an independent professional opinion upon which the financial community and taxing authorities may, in the ordinary course of events, choose to place great reliance.

Many public accountants have long felt that the element of public interest in our professional activities could be adequately safeguarded only by enacting legislation which would limit the practice of public accountancy strictly to those who were duly authorized to engage in such practice by the state authorities. As the law of New York stands today, anyone may practise public accountancy. He is merely restricted in the use of the title "certified public accountant" or the designation "C.P.A." By comparison, it should be noted that no one may practise law unless he is a duly admitted member of the bar. There is such a dominant public interest in the practice of the law that it is constitutional to restrict its practice to those who have been found to be properly qualified and who are licensed for the purpose. Any effort to place the profession of public accountancy upon a similar plane in-

volves the necessity of clearly defining what aspects of accounting activity are to be regarded as the public practice of accountancy or the practice of public accountancy. In this connection, the following definitions were set forth in proposed legislation of recent years:

"(1) The 'practice of public accountancy' is defined as follows: A person engages in the practice of public accountancy who, holding himself out to the public as an accountant, in consideration of compensation received or to be received by him, offers to perform or does perform, for other persons, services which involve the auditing or verification of financial transactions, books, accounts or records, or the preparation of, or the reporting over his signature of financial, accounting, and related statements, intended for publication or for the purpose of obtaining credit, or to influence any person or persons other than those who procured the preparation, certification or verification, subject, however, to the provisions of section fourteen hundred and eighty-five-a hereof;"

"Nothing contained in this article shall prevent any person from keeping books, making trial balances or statements, or preparing reports, provided such books, trial balances, statements, or reports are not issued over the name of such person; or from preparing tax and information returns or from acting as representative or agent at tax inquiries, examinations or proceedings; or from preparing or installing accounting systems; or from examining accounts for the determination of the efficiency of operating methods or appliances; or from studying matters of organization."

No such bill has yet passed the legislature of New York, but the endeavor to secure this type of restricted regulation still continues. What is significant is that here stands a precise definition of the function of public accountants, which most clearly justifies our claim to recognition as a full-fledged profession.

All this has an important bearing upon the type of relationship we have been developing with the legal profession. That relationship should involve acceptance of the premise that we are members of a companion profession, and not merely a useful group of supereducated bookkeepers. Lawyers are concerned with the legal well-being of their clients. The universal obligation of the businessman to account to others for the conduct of his business is a legal duty which can best be performed with the help of the public accountant. Legal problems which may arise in that connection are best dealt with through the cooperative effort of the accountant and the lawyer. It seems to me that accountants and lawyers should assume that such cooperation is the normal need of their business clients and that sooner or later situations are bound to arise where the two professions can and should work together.

In the case of large corporate enterprises, this fact is invariably fully recognized. The large corporation usually has a law department of its own, and the public accountant has contact normally with personnel of the corporation's law department as well as with personnel of its accounting department. The requirements of the Securities and Exchange Commission for the filing of registration statements in connection with new issues of securities, and the filing of annual reports by corporations whose securities are listed on our stock exchanges, have made cooperation between lawyers and accountants well nigh mandatory. Management could not meet this legal requirement without the help of both professional groups. Neither lawyers to the exclusion of public accountants nor public accountants

to the exclusion of lawyers could function effectively in these situations. Similarly, the tax problems of large corporations will inevitably bring their lawyers and public accountants together. Innumerable other situations are likely to arise from time to time which naturally suggest, if they do not compel, cooperation between accountants and lawyers.

Even in the field of big business, however, there are occasional glaring instances where closer cooperation between accountants and lawyers might have averted serious blunders. Not many years ago, the directors of a large financial institution were sued by their stockholders for alleged waste of corporate assets. The litigation centered upon the claim that compensation paid to officers was substantially excessive. This compensation consisted in large part of bonuses based upon a share of profits of the institution. The plaintiffs did not succeed in establishing that the amounts paid, however large, were out of relation to the value of the services rendered. It was proved, however, that bonuses paid were excessive in amount because profits had been incorrectly calculated. It was shown that the accounts of the corporation were under the direction and supervision of the executives who participated in the bonuses, but that despite this conflict of interest the calculation of profits was left entirely to the officers of the corporation and their subordinates. Accordingly, it was held that the directors had negligently failed to safeguard the interests of the stockholders. There should have been some independent check upon the calculation of the profits. This might readily have taken the form of an audit of the accounts of the corporation by independent public accountants. The officers who had overpaid themselves were not financially responsible at the time of the action, and the directors were held liable to the corporation for the loss sustained. Here was a situation which clearly called for the services of independent public accountants. Had the lawyers for the corporation recognized the need for such cooperation with public accountants in the administration of this profit-sharing bonus plan, the result probably would have been very different, and the directors would not have incurred personal liability, which in this case aggregated almost $2,000,000.

It should be repeated, however, that in the field of big business there is likely to be a very well developed program of full cooperation between lawyers and public accountants. It is in the vast area of moderate-sized and particularly small-sized business enterprises that there is much room for the development of improved relations. Here a lawyer is ordinarily called in at the birth of the business. There is usually either a corporation to be organized or a partnership agreement to be drawn. It is at this very point that cooperation between lawyer and public accountant should commence and often does. Lawyers with growing frequency suggest that the new business retain a public accountant from the very beginning. The lawyer often welcomes an opportunity to discuss with the accountant the financial structure of the venture before preparing the certificate of incorporation or partnership agreement. Tax problems make this particularly desirable. Furthermore, lawyers understand the importance of adequate accounting records and realize that the new business entity will very soon have occasion to make representations as to its financial position either to creditors or to stockholders.

It so happens, however, that whereas a public accountant usually is retained on an annual basis, in

the case of a new business enterprise of small proportions the lawyer is through with his engagement when he completes the incorporation of the organization or the drafting of the partnership agreement. The accountant has a continuous working contact with the client, usually in the form of a relatively detailed continuous monthly or quarterly audit. The lawyer, on the other hand, has no continuing contact with the affairs of the client and is not consulted unless or until some special legal problem or situation arises. The annual accounting retainer is a very usual arrangement with small business; the annual legal retainer is not. This fact presents both opportunities and dangers in the relationship of public accountant and lawyer, which will warrant further consideration.

I mentioned earlier that in dealing with financial facts and business transactions, public accountants have found themselves involved in a consideration of legal relationships and property rights. There is no doubt that the subject matter which we work with is legal material in many of its important aspects. You have but to glance down each side of any balance-sheet, and every item will at once bring to your mind mixed questions of fact and law. The treatment of each item by the accountant inescapably involves on his part assumptions or conclusions as to the legal effect of the transactions recorded on the books of account. The public accountant would be unable to express any opinion concerning the financial position or operating results of an enterprise if he did not have a working knowledge of commercial law adequate to enable him to interpret the recorded business transactions. For this reason the technical education of the public accountant has always included comprehensive courses in the main branches of commercial law.

Modern-minded lawyers have been stressing the impact of accounting thought upon the present-day development of the law. It was in this sense that A. A. Berle recently spoke of "the newest branch of law, which accounting really is." The interplay of legal concepts and accounting principles in questions constantly coming up for adjudication is receiving increasing attention in our law reviews. In an article entitled "Elements of the Law of Business Accounting," by Berle and Fisher, in the *Columbia Law Review* of April, 1932, it was stated:

"These questions (and many others) have in lump been referred to the accountant. Yet, day by day, lawyers and courts predicate legal effects on the results of accounting. It may fairly be said that rules of accounting are for many purposes rules of law; or, conversely, that rules of law entail rules of accounting. The respective tasks of a lawyer and accountant here intermingle so closely that neither can proceed without the other. To a much larger degree than perhaps either profession realizes this intermingling has already taken place. Courts have in fact and in form laid down rules which bind the accountants, or they have themselves adopted accountants' conventions. The accountant, once his rules have found their way into the body of law, becomes legally obliged to follow them in his further work."

It has been suggested that the role of accounting today parallels that of the law merchant of over a century ago. In former times, businessmen found it expedient to adopt rules which they accepted among themselves for the conduct of their business. These rules, known as the "law merchant," came to be so well established that in the course of time they were absorbed into the common law of England. Thus it was that our law of negotiable instruments

evolved. Accounting practices and usages are making a similar contribution today. The cases decided already embrace a wealth of accounting situations. The mass of court decisions in tax cases has resulted in judicial recognition of accounting practices which are slowly becoming formalized into rules of law. Where accounting practices have advanced beyond the bounds of older decisions, modern legislation has often converted accounting thought into new rules of law. As illustrations we might cite the clarification of law regarding corporate dividends, both through legislative enactment and judicial interpretation. Accountancy has also inspired the modern tendency to approach the transactions of parent companies and wholly owned subsidiaries from a realistic consolidated viewpoint.

Despite the fact that lawyers and public accountants are to a large extent working with the same legal material, each profession has its own distinct function to perform. Accountants have studied law, not with the thought of giving legal advice or preparing legal documents (for that would constitute practising law), but solely for the purpose of equipping themselves to practise accountancy. In the course of his auditing work, the public accountant examines corporate minutes, purchase orders, sales contracts, real-estate leases, employment contracts, profit-sharing license agreements, insurance policies, and innumerable other documents which create legal rights. He examines these documents, not for the purpose of giving legal advice with respect to them, but for the purpose of substantiating entries which may appear on the books of account, thus supporting his opinion as a public accountant.

Very often the accountant in the course of his work may encounter legal problems which have not yet come to the attention of the client. The accountant in such cases should recommend to his client that counsel be consulted. In this way, the accountant serves his client's best interests and incidentally cooperates with the lawyer. This is the opportunity which often presents itself to the accountant in connection with the continuous audit of the accounts of small business enterprises. This situation may also involve hazards to the accountant. The client may seek the accountant's legal opinion. The accountant has neither the legal nor the ethical right to attempt so to serve his client. He may be seriously prejudicing his client's interests by giving him half-baked legal advice. He may be engaging in the unauthorized practice of the law. Instead of taking advantage of an opportunity to cooperate with the lawyer, he has put himself in the unfavorable light of engaging in unfair competition with him. Such occurrences often result from sheer thoughtlessness on the part of the young and eager practitioner. A client may ask the accountant to prepare the corporate minutes for a directors' meeting which voted officers' salaries, or to draft a profit-sharing employment agreement involving a definition of net profits. The accountant may be qualified to render some assistance in these matters, but he should never attempt to render such assistance directly. Instead, his advice invariably should be that such legal work should be referred to the lawyer.

Bar association committees have been dealing vigorously with problems arising out of the unauthorized practise of the law. Accounting societies are endeavoring to cooperate with the bar associations in the solution of these problems. So far as accountants are concerned, the only sector of activity where genuine difficulties arise is the field of taxation. Here a curious paradox presents itself.

Though it is admitted that in this

field the accountant and lawyer find the most frequent opportunity for cooperation, it is in this same field that there seems to be the greatest area of definite overlap and conflict. Determining legal questions preliminary to preparing tax returns, preparing protests against proposed tax assessments, representing taxpayers at conferences with administrative authorities, preparing claims for refund, preparing petitions, stipulations, orders incidental to conducting proceedings before the Board of Tax Appeals—all these phases of tax practise are claimed by many lawyers to be their exclusive domain. For the time being this field of controversy is being patiently explored by both accountants and lawyers, who are slowly moving toward a mutually acceptable solution. However, we are still far from the elimination of basic differences of opinion.

The American Institute of Accountants has endeavored to clarify the position of accountants in a statement entitled "Outline of Relation between the Practise of Law and of Accounting,"* which is as follows:

"Although the accounting profession is much younger than the legal profession, it has grown rapidly during the four or five decades of its active history in this country, and throughout the period the association of the two professions has become constantly closer. Accounting, having evolved from bookkeeping, is naturally intimate with business practices which historically and necessarily are the basis of business law, and due to the increasing number of state and federal statutes, business itself and the accounting profession are surrounded by ever more legal problems.

"It is thus apparent that the two professions are closely interrelated.

"In practice, they often work together in the interest of mutual clients in the contesting or settling of claims, tax disputes, and matters arising under the jurisdiction of government regulatory commissions. Businessmen recognize the wisdom of obtaining professional advice in order to avoid costly claims and disputes, and for this purpose they consult with both attorneys and public accountants. In many instances the attorney is called in at the suggestion of the accountant and vice versa.

"Close as the two professions necessarily are, they are nevertheless fundamentally dissimilar. But as the courts themselves have more than once pointed out, we are often confronted with mixed questions of law and fact. Obviously, then, it is impracticable to formulate mutually exclusive definitions of the practice of law and of the practice of accounting or to draw a hard and fast boundary between all the activities of the two professions. In important respects, their activities necessarily overlap.

"Typical of activities exclusively within the field of law are the trial of cases in the courts, the drawing of such documents as deeds, conveyances, wills, trust agreements, contracts, charters, articles of incorporation, articles of association, bylaws, proxies, indentures, etc. Typical of activities exclusively within the field of professional accounting are the examination of books of account and other corporate or business records pertinent thereto, the forming and expressing of expert opinions on financial statements prepared therefrom, the installation of bookkeeping, cost finding, and budgetary systems, etc. As to each of these types of activities where the responsibility rests exclusively with one profession or the other, the responsible profession will nevertheless often find it advisable or neces-

*F. P. Byerly, "Relationship between the Practice of Law and of Accounting," The Journal of Accountancy, Sept., 1938, p. 157.

sary to consult with the other. A lawyer, in drawing an indenture, may require an accountant's advice as to a workable definition of 'current assets' and 'current liabilities'; an accountant, in reporting on the position of a company, may require the opinion of a lawyer as to the financial significance of litigation in which the company may be involved.

"Tax work is a field where the two professions overlap. As a specialist in accounts and accounting practice, the accountant is naturally called upon to prepare tax returns. When a tax dispute is carried to court the case must of course be handled by an attorney. Between these two extremes are such steps as discussions and conferences with field agents, review of agents' reports, preparation of protests, review of letters from the bureau in Washington, attending hearings before the bureau, preparation of petitions to the Board of Tax Appeals, drafting and agreeing upon stipulations of facts with bureau representatives, negotiations and compromises with members of the technical staff, and conducting trials before the Board of Tax Appeals. Long-established rules of the Bureau of Internal Revenue permit qualified accountants to act as agents for taxpayers through all the steps within the bureau, and the rules of the Board of Tax Appeals have from the inception permitted certified public accountants, as well as members of the bar, to try cases before it.

"There is such diversity in the nature of the facts and issues involved in different cases that it is impossible to lay down any rigid rule in these matters, but generally speaking the further the conduct of a case progresses along the above route, the more advisable it becomes for the taxpayer to have the services of a lawyer. Some taxpayers have lawyers associated with their tax matters from the inception; others may choose to leave cases in the hands of accountants for settlement until and unless it is deemed necessary to have recourse to the courts. The choice between these extremes of policy may depend not only on the amount involved in the case, but also upon the nature of the facts and issues. From the point of view of either profession, the criterion is elementary. Whatever arrangements are in the best interests of the clients will in the long run prove to be to the best interests of both professions.

"From the facts and considerations outlined above, it will be apparent that while there are numerous important activities that fall properly within the province of only one of the respective professions and should not be undertaken by the other, there are also many important activities in which the practices of the two professions necessarily overlap and where they must be ready and willing to consult and cooperate with each other in the best interests of their clients."

I have tried to emphasize the basic idea that accountancy and law are companion professions which are inevitably interdependent upon each other. There is the ever present opportunity for active cooperation; there is also the frequent possibility of conflict. It is most important for accountants to have a realistic understanding of our close relationship to the legal profession. The interests of our mutual clients are best served by our harmonious cooperation. The goodwill of our lawyer friends is a tremendous asset for us. The future should bring a fuller appreciation among us of our mutual relations in our respective fields of work, and as a result the situations in which we can work together effectively should multiply to our mutual advantage.

Audit Procedure on War Department Construction Contracts

By Edwin E. Leffler, C.P.A.

On March 20, 1941, Colonel Arthur H. Carter was called to Washington to organize a department in the Purchase and Contract Branch of the Under Secretary of War's Office. One of Colonel Carter's first acts was to appoint five deputies, one to represent him in each arm of the service. In the Quartermaster Corps we were fortunate in having assigned to us Mr. Andrew Stewart, whom you all know as the President of the State Society. Another one of Colonel Carter's deputies, who is also a member of the Society, is Mr. Harold R. Caffyn.

This new department is making a study of the accounting and auditing procedures of the entire War Department. As a result of studies made, a directive was issued on May 15, 1941, by the Under Secretary of War's Office to the Chiefs of all arms of the service for the purpose of improving the audit procedure and to eliminate needless duplications in the functions of the Contractors' and Project Auditors' staffs.

This directive is titled "Improvement of Audit Administration of Cost-Plus-a-Fixed-Fee Construction Contracts and certain other Cost-Plus-a-Fixed-Fee Contracts." Paragraph 5 of this directive reads as follows:

"The functions which should be discontinued by the contractor and assumed exclusively by Government personnel in those cases to which the recommendations are applicable are (1) all time checking in the field and the preparation of original payrolls from original records of employment and time reports furnished by the contractor (2) inspection of material received (3) auditing vendors' invoices in the first instance (4) checking of equipment rentals and preparation of rental payrolls (5) auditing in the first instance of transportation vouchers and (6) such other auditing functions as may be effectively performed by Government employees exclusively."

By following this directive on the new projects about to be started all of the time and material checking formerly done by the Contractors and spot-checked by the Government's checkers will be transferred to the Project Auditor's staff thus eliminating duplication of work.

This department has also revised the fixed fee contract and the revised form, dated June 19, 1941, contains the following new paragraph:

"The Contracting Officer shall have the right to decide which functions of checking and auditing are to be performed exclusively by the Government and to prescribe procedures to be followed by the Constructor in such accounting, checking and auditing functions as he may continue to perform. The employment and number of personnel to be engaged by the Constructor for checking, auditing, and accounting work shall be subject to the approval of the Contracting Officer and if, in the opinion of the Contracting Officer, the number of employees engaged in checking, auditing and accounting work is excessive, the Constructor shall make such reductions in force as the Contracting Officer deems necessary."

Presented before the Eighth Annual Chapter Conference of the New York State Society of Certified Public Accountants, June 27-29, 1941.

The information herewith presented has been prepared to reflect both of these changes in procedure.

1. a. Background of Branch

The record of the 1917-1918 cantonment construction shows that about 9% of the first $200,000,000.00 of construction expenditures, or approximately $18,000,000.00 was subjected to suspensions in the accounts of the disbursing officers. In a report made to the Secretary of War by the Board of Review of the Construction Division, the following recommendation was made:

> "The Board of Review is of the opinion that the Department which is responsible for the design and construction of projects should have complete responsibility and accountability for funds and property. The experience of the Construction Division shows it to be impractical and uneconomical to separate accounting from other features of construction."

Taking these facts, as well as the recommendation, into consideration, as soon as the present emergency construction program was started, in late July 1940, the Accounting and Auditing Branch was organized. This Branch has since been merged with the Funds and Estimated Branch and is now called the Accounts Branch.

b. Types of Contracts

For the most part, War Department Construction Program is being carried out under four general classifications:

(1) Cost-Plus-a-Fixed-Fee Contract

(2) Lump Sum Contract

(3) Emergency Plant Facility Contract

(4) Purchase and Hire or Force Account

In the first eight months of the present fiscal year, the War Department entered into about 739,000 contracts at an aggregate estimated cost of $6,062,000,000.00. Of these, approximately 733,000 contracts with a cost of $1,615,000,000.00 were let pursuant to advertising to the lowest responsible bidder; approximately 5,000 contracts with a cost of $1,800,000,000.00 were let on a negotiated basis for lump sums; and slightly over 200 contracts, mostly for construction, with an estimated cost of $1,738,000,000.00 were negotiated for on a cost-plus-a-fixed-fee basis. In addition there are approximately 70 contracts for new facilities costing $300,000,000.00 and orders were placed with government arsenals for an additional $500,000,000.00.

These types of contracts will be described briefly under separate headings when we take up the auditing functions under each.

c. Project Organization

In order to handle these construction contracts, a new organization had to be formed. The direct representative of the Government during performance of construction contracts is a commissioned officer of the Army designated as Constructing Quartermaster. A Constructing Quartermaster is assigned to each major project or to each group of smaller projects in a given locality. He is responsible for supervision of all activities in connection with the contract, including determination of the propriety and accuracy of the cost for which the contractor is to be reimbursed.

The Constructing Quartermaster must organize a rather large staff, consisting of departments for engineering, project auditing, property, procurement and administration, each branch varying in size with varied characteristics of the particular construction work in hand. The

project auditing should normally be the largest branch of the staff, because of the great volume of detail to be handled; because it performs some of the duties which would otherwise fall to the Engineering Branch, and because it must control to some extent and audit the other branches.

d. Magnitude of Problem

Before talking about auditing functions it will be helpful to sense the magnitude of the problem. For this purpose I quote from a statement made by the Honorable Robert P. Patterson, Under Secretary of War, before the Truman Committee of the United States Senate on Tuesday, April 15, 1941:

"Position in July, 1940.

"I recall to you our military situation a short time ago, last summer. On July 1, 1940, the strength of the Regular Army was 263,000. We had equipment for these men, much of it not modern. Housing for troops was scattered in small posts. There was not a cantonment in the continental United States large enough to hold a division.

"On the industrial front—and machine power is as important today as man power—we were even more poorly prepared. While we have a great industrial economy, we have never had a full time munitions industry. On July 1, 1940, our munitions industry was virtually non-existent; quantity production of the munitions industry was virtually unknown; we had few facilities for production of tanks and guns. The Government arsenals were wholly inadequate for an enlarged Army.

"Our situation in July, 1940, may be gauged by comparing the amounts of money that the Army had available for equipment in past years. After all, what you have to spend measures what you can buy. In the fiscal year, 1937, the Army expenditures for equipment and facilities amounted to $66,000,000.00. This was increased slightly in each of the two following years, until in the fiscal year 1939, the expenditures for equipment amounted to $95,000,000.00. In the fiscal year 1940 they were much larger, $345,000,000.00.

"Compare these amounts with the funds made available to the Army thus far for the year ending June 30, 1941. Prior to passage of the Fourth Supplemental Appropriation in March, the funds available for equipment and facilities for the current fiscal year exceeded **six billions.** * * * With the 4th and 5th supplemental appropriations, the total funds appropriated for the Army in this fiscal year, for equipment, facilities and other military purposes **exceed 13 billions."** (This is exclusive of Lend Lease Funds.)

"The Acceleration of our Defense Program in the Summer of 1940.

"On August 27, 1940, the Congress authorized the President to call out the National Guard. On September 16, 1940, the President approved the Selective Service Act, providing for the training of not more than 900,000 men a year.

"Prior to the passage of these laws, the War Department did not know what the size of the new Army was to be, nor did it have the funds required to house and equip the new Army. Our big push in procurement did not begin until September, 1940, only eleven months ago.

"Present Procurement Task.

"The strength of the Army for the first time since 1919 is over 1,000,000 men. By the end of June of this year, we will have 1,400,000 men under arms. Our Procurement program for essential items has been for an Army of

1,400,000 men, and for critical items (meaning those not readily obtainable from ordinary commercial sources) for 2,000,000 men. Think what an Army of 1,400,000 men means in housing alone. It means constructing many large cities equipped with all utilities, like Camp Shelby with 50,000 men, which will be the second largest city in Mississippi." (Fort Bragg in North Carolina, with over 65,000 men is one of the three largest cities in North Carolina, and is twice as large as Watertown, New York—the nearest city to us here).

* * *

"New Plant Program.

"For most of the items of our procurement program, we cannot do what a man does when he buys a car: select the make he wants, go to a local dealer and drive off with the car. Even ordinary supplies like clothing and shoes are purchased in such large quantities that their procurement involves a laborious process of planning and contracting. But in many of the critical items, the armament items —guns, and tanks, for instance,— virtually no commercial production was available. As a result, the War Department had to bring into existence the plants and facilities necessary to their manufacture."

A total of $1,785,000.00 has been appropriated for this emergency construction and up to June 18, 1941, construction has been started with an estimated cost of practically $1,500,000,000.00.

e. Personnel Problems (In early stages of program)

One of the first problems to be met in a construction program of this size (probably the largest such program ever started) was the securing of trained accounting personnel.

The magnitude of the problem in staffing the Project Auditor's offices at the fixed fee projects can be visioned when we realize that each project needed in addition to the six key men from 50 to 250 clerks and material and timechecking personnel. From the end of August to the end of December, the number of fixed fee projects had increased from 7 to 73, and, subsequently, this number increased to 100 projects.

The difficulties and complexities encountered in the auditing task on Cost-Plus-a-Fixed-Fee projects made necessary an unusually high grade of key personnel, men of professional stature. These projects were typically of large size and progressed with great rapidity. It was necessary for the key men to organize their departments rapidly (frequently with untrained and inexperienced subordinate personnel) to handle fiscal matters and field verification operations comparable in dollar-size and volume to those of the largest industrial or mercantile organizations, and larger than usually experienced in the construction industry. Because of the extremely short time in building the emergency projects, it was necessary for key men to set up their field organization and start to function from the very moment they arrived at the site. The positions offered these key men were all on a temporary basis. In addition to the transient nature of the positions, living conditions were typically bad, and were unnaturally expensive. Because of this and the temporary nature of their assignments, men usually found it necessary to maintain their families elsewhere, thus incurring practically duplicate living expenses.

The factors outlined above have made procurement of the right kind of personnel so difficult that sufficient men have not always been available to staff the rapidly growing list of projects. These factors have also brought a high percentage of resignations from men already working,

and a sizable number of refusals to take the oath, after original appointments have been made, before entering on duty. In a large proportion of these instances, many have accepted private employment, offering better salaries, better working and living conditions, or greater security.

SCHEDULE

		CAF-11 and over	CAF-10 and under	Total
A	Total Appointments	194	580	774
B	Resignations and Declinations to take oath after previously "accepted" appointments	54	79	133
*C	Percentage of "B" to "A"..........	28%	14%	17%

* Note: It is significant that the ratio of resignations and declinations of higher grade men is twice that of the lower grades.

e. Personnel Problem Now

This personnel problem has largely been solved but at the present time, although some projects are nearly completed, and key men are therefore available for further assignment, the need of additional qualified key men is still acute.

f. Project Auditor's Manual

A manual has been prepared covering audit procedures and, in this manual, suggested forms are prescribed for all the different departments into which the project auditor's branch is divided. In addition to this manual, supplements and letters giving new procedures or modifications of procedures already covered in the manual are being sent out at frequent intervals.

g. Project Auditor's Organization

Earlier, in describing the organization at the projects, it was mentioned that one of the largest departments under the Constructing Quartermaster was the Project Audit Section. This section is organized under a Chief Project Auditor, whose staff consists of an Assistant Chief Project Auditor, and up to six supervising auditors, each in charge of a department and each having a number of assistants of various kinds. During the early stages of a project or on the smaller ones, staff duties are combined.

The functional chart of the Project Audit Section shows the office of this section to be divided into seven departments as follows:

(1) Finance and Accounts Department
(2) Materials Department
(3) Timekeeping Department
(4) Payroll Department
(5) Transportation Department
(6) Equipment Department
(7) Commissary

2. Auditing Functions on Cost-Plus-a-Fixed-Fee Contract

As mentioned above approximately 200 contracts (out of a total of 739,000) with an estimated cost of $1,738,000.00 were negotiated on the cost-plus-a-fixed-fee basis.

Ordinarily, in such a building program as the Government is now engaged in, detailed plans and specifications would be prepared to suit the site and other requirements, and lump sum bids would be invited through advertising and circularization. Such procedure is time-consuming at best and, when detailed plans and specifications have not been drawn, or require revision for any number of contingencies, (for instance, to meet varying terrain)

the time element makes some other arrangement necessary.

To meet this need and at the same time avoid some of the disadvantages said to have been associated with the cost-plus-a-percentage contracts of 1917-1918, the cost-plus-a-fixed-fee negotiated type of contract was adopted. The procedure consists, in general, of the simultaneous selection and acquisition of the site of a proposed project, preparation or revision of the general plan and estimate of cost, and investigation and selection of a general contractor and architect-engineer contractor. This is followed by negotiation of contracts with the selected contractors under which each is entitled to reimbursement for all legitimate direct costs incurred in performing under the contract, plus a fixed fee for his services.

It will be immediately apparent to anyone familiar with the subject that obligations incurred when speed or time is of prime importance must be carefully scrutinized and controlled if excesses are to be avoided. The experience of our Government in 1917 and 1918 clearly demonstrated that truth. Although the General Contractor has no pecuniary interest in costs under a cost-plus-a-fixed-fee contract, his zeal may not always be tempered by good judgment and his employees may not be sufficiently cost conscious.

For the foregoing reasons, if for no other, pre-audit of expenditures of the contractor is both desirable and necessary. It should be understood clearly that pre-audit of the transactions does not impugn the integrity or good faith of the contractor.

The Project Auditor's Staff, in conducting this pre-audit of the contractor's expenditures, establishes, among other things:

(1) That the contractor is not reimbursed for any expenditures incurred by him which are not authorized by, or which are specifically excluded by, his contract.

(2) That the contractor is not reimbursed for needless expenditures incurred by him, his agents, or employees, or through disregard of instructions given him.

(3) That materials and services are secured at the lowest obtainable prices consistent with maintenance of quality and the required time of delivery, and that qualities and quantities of materials received are as specified.

(4) That services engaged or contracted for are rendered satisfactorily and as specified.

(5) That wage rates paid are as required by law and are not improperly out of line with those prevailing in the community.

(6) That overtime or shift work requiring payment of increased wage rates is approved in advance.

(7) That wages are paid only for time actually spent on the work by employees of the contractor.

(8) That no unauthorized deductions are made from wages earned by any employee of the contractor and that the correct amount of wages is actually paid to each employee of the contractor.

(9) That equipment rental contracts, including recapture provisions, are properly adhered to and that proper rates are duly paid and accounted for.

(10) That availability of funds for the payment of preaudited expenditures related to the particular project is determined.

a. Fiscal

The Finance and Accounts Department is in charge of the Assistant Chief Project Auditor. His principal duties include the following:

(1) Maintains Records of Estimated Construction Costs.

(2) Maintains Record of Construc-

tion Authorizations, Allotments and Expenditures.

(3) Maintains Encumbrance Record.

(4) Records Vouchers.

(5) Makes Final Audit of all Invoices, Payrolls, Rental Rolls, and Vouchers.

(6) Verifies Cost Records of Contractor or Keeps such Records.

(7) Prepares Financial Reports.

(8) Prepares Statistics.

The Assistant Chief Project Auditor receives checked invoices with supporting papers attached, from all other departments; he makes a final audit of these papers and checks the distribution.

Contractors are reimbursed for their disbursements on a Government voucher (Form 1034) prepared by the contractor and having attached to it the vendor's original invoice, certified and receipted by the vendor.

Proper verification and certification of a vendor's bill requires:

(1) Showing by the Project Auditor of the Receipt of Material or Service Rendered.

(2) Checking of Prices with Purchase Order.

(3) Checking Extension Figures and Additions.

(4) Verification of Appropriation and Fund Symbols Chargeable.

In the case of reimbursement for wages paid, in addition to the certifications, the voucher must have attached to it the original payroll. Payrolls will bear the signature of the employees paid or be supported by individual receipts of the employees, properly certified by the Project Auditor to the effect that actual payment was witnessed by the Project Auditing Force.

After the voucher has been audited and certified by the Project Auditor it goes to the Constructing Quartermaster for his approval and certificate, it then goes to the Finance Officer who has been designated by the Chief of Finance as Disbursing Officer.

b. Materials

The Materials Department is administered under the supervision of a Supervising Auditor. The principal duties of this department may be grouped under five sub-divisions, as follows:

Branch	Head	Principal Duties
(1) Purchase Order	Order Clerk	Checks Prices and Records Orders.
(2) Invoice	Invoice Clerk	Records and Checks Invoices and Maintains Statistical Records of Expendable Materials.
(3) Receiving and Stores	Chief Receiving Clerk	Checks Quantities Received and Supervises Stores.
(4) Inspection	Chief Inspector	Supervises Inspection of Quality, with such Special Assistance as may be required, when this function is not performed by Operations Branch.
(5) Property	Property Record Clerk	Forwards Copies of Invoices to Property Officer for Property Accountability. Maintains Records of Non-expendable Materials.

Purchase Orders for materials and supplies are prepared by the contractor and must be approved by the Constructing Quartermaster before being sent to the vendors. The Project Auditor checks prices from any available source such as bids, schedules of prices, catalogues, and by telephonic check up. All invoices are sent direct to the Constructing Quartermaster and the Government maintains a staff of Material Checkers and Inspectors who tally, inspect, receive, and accept materials for the Government. Where technical knowledge is needed on inspections of materials, the project auditor secures any needed special assistance from the Architect-Engineering Department, or from special consultants.

After invoices are approved by the Project Auditor the contractor pays the invoices and when he receives the receipted invoice from his vendor, the contractor then prepares a reimbursement voucher, attaching his vendor's receipted bill to it. In this way all invoices are preaudited by the actual checking of the materials before the approval of the invoice.

When materials are received at the project site, receiving slips are prepared and the materials are accepted for the Government. Since title to all materials and supplies rests in the Government, as soon as they come onto Government property, all non-expendable properties are charged to him on memorandum receipts so that he is held accountable for them.

2. c. Timekeeping

The Timekeeping Department is administered under the supervision of a Supervising Auditor. The principal duties of this department include the following:

Makes an independent check of the time of Contractors', Architect-Engineer's, and other Employees.

Makes an independent check of the time of Trucks and Equipment on a Rental Basis.

Witnesses Payment of Wages on all Payroll subject to reimbursement.

Labor is engaged by and supervised by the contractor, all wage earners are employees of the contractor, who maintains employees record cards.

Wage earners are checked in and out and on location twice a day by Government timecheckers. The contractor's foremen keep time for purposes of preparing cost records; by means of rotation of time books, the foreman's timebooks are reconciled to those maintained by the Government timecheckers the day after the services are performed.

Daily time sheets are prepared by the Government timekeeping department and, after the reconciliation with the foremen's records mentioned above, these sheets are turned in to the Payroll Department.

Similarly, time of rental equipment is checked by the timekeepers and a daily report is turned in to the Equipment Department for the purpose of auditing the rental rolls for equipment.

d. Payroll

The Payroll Department is administered under the supervision of a Supervising Auditor. The principal duties of this department include the following:

Maintains a Record of Contractor's, Architect-Engineer's and other Employees.

Audits the payrolls of Contractor and Architect-Engineer.

Checks receipts for wages with payrolls in order to determine the amounts for which the Contractor and Architect-Engineer are entitled to Reimbursement.

May prepare Payrolls and Vouch-

ers for Contractor and Architect-Engineer and Record Earnings.

Keeps Record of Unclaimed Wages.

The preferred method is for the Government's payroll department to prepare the payroll but if the Contractor desires he is permitted to prepare them.

In the majority of cases, where the Government employees prepare the payrolls, the preferred practice is the use of the Ditto machine for the preparation of the necessary copies of the payroll, the pay envelope or pay check, the employees' record for social security and the receipt which must be given by the employee when he receives his envelope or check. This receipt must be attached to the original payroll when the contractor prepares his vouchers for reimbursement.

The payroll, after approval by the Constructing Quartermaster, is then turned over to the contractor for filling the envelopes or signing the checks. The contractor makes the actual payoff and all payments must be witnessed by a Government representative who certified that he has witnessed each payment. Usually the Government representative countersigns the wage earners receipts.

Where the contractor prepares his own payrolls the Project Auditor audits the payroll from the time sheets and verifies it mathematically prior to payment.

Under either method a complete preaudit maintains.

2. **e. Transportation**

The Transportation Department is administered under the supervision of a Supervising Auditor. The principal duties of this department include the following:

Maintains records of all inbound and outbound shipments, expediting shipments as required.

Audits all bills or charges for incoming freight, express, trucking and parcel post for correct weights and extensions, and furnishes Materials Department with record thereof.

Keeps in touch with Contractor's field office and transportation department in advance of arrival of freight.

Maintains car records of all shipments as to time of placement, unloading and release in order to audit bills for demurrage and the reason for the accruing of the charges.

Maintains records of loss or damage for auditing claims prepared by contractors against carriers; checks to see that contractor files claims for shortages or damages; maintains record of claims filed and payment.

In addition to the auditing of freight bills performed at the project, the Comptroller General's Department maintains a staff that audits all bills from common carrier. Under the Transportation Act of 1940, if any errors are found in these bills from common carriers, the amount of overcharge may be deducted from any other bills due the particular common carrier involved. This obviates the necessity of having transportation rate specialists in every Government agency.

f. Equipment

The Equipment Department is administered under the supervision of a Supervising Auditor. The principal duties of this department include the following:

Supervises inspection of all tools and equipment upon arrival at work site (with such special assistance as may be required) as to sound and workable condition.

Keeps a close watch on Contractor's tool house and supervises methods of handling tools in order that wastage and loss may be reduced to a minimum.

Audits all vouchers for rental of

equipment; maintains necessary records pertaining thereto; maintains records on equipment repairs to determine whether reimbursable.

Checks valuations of equipment or costs thereof.

The primary function of this department is to keep rental rolls on all rented equipment.

When contractor equipment such as trucks, bulldozers, scrapers, or any other equipment is needed on a project, the contractor brings his own equipment and if necessary rents further equipment from third parties. In either case, all equipment coming onto Government property is appraised and inspected as to condition and suitability. After the value is determined to the satisfaction of the owner and the Government's representative, a rental agreement contract is drawn up. Under this the owner of the equipment is paid on agreed monthly rental. All of these contracts have a recapture clause which provides that when the rental paid equals the agreed upon value plus 1% per month for the period in use, the title to the equipment passes to the Government.

2. g. Commissary

The Commissary Department is administered under the supervision of a Supervising Auditor. The principal duties of this department include the following:

Audits commissary receipts and expenses, concessions and company stores, for the purpose of determining that the provisions of the contract are properly carried out.

At most projects the Commissary is operated as a concession. In these cases the audit function is limited to making sure that the prime contractor does not share in the profits and that the concessionaire does not charge exorbitant prices. In addition to these functions the Constructing Quartermaster must assure himself that sanitary conditions are maintained.

Where the Commissary is operated by the prime contractor it must be audited to make sure it is run without profit.

3. Auditing Functions on Other Types of Contracts

On all other types of contracts the auditing functions performed are similar in character to those described above, but many of the functions used in cost-plus-a-fixed-fee contracts are not needed. For instance, on lump sum contracts it is not necessary to check time or purchases.

a. Lump Sum Contracts

Previously it was mentioned that approximately 5,000 contracts, with an estimated cost of $1,800,000,000.00 were negotiated on the lump sum basis. Wherever possible, when time allows the preparation of detailed plans and specifications, lump sum contracts are used.

It is not necessary to explain the lump sum contract since you are all familiar with it in commercial practice.

On this type of contract, the auditing functions are limited to those necessary to safeguard Government expenditures under the terms of the contract and consist generally of the following:

Maintains record of Construction Authorizations, Allotments, Encumbrances and Expenditures.

Prepares Financial Reports and Statistical Reports.

Records Vouchers.

Prepares Financial Section of Weekly Field Report.

Verifies Wage Rates.

The above functions at a lump sum project will be under the direction of an auditor of proper grade

if construction is performed in connection with another project, to which an auditor is assigned. The functions will be under the direction of a Chief Clerk where no auditor is assigned.

In this type of contract, materials are checked only as to quality and time is not checked but wage rates are audited to see that the rates specified by the Department of Labor are maintained.

Some of these contracts, particularly for airplanes, have an "escalator clause." Under this, the lump sum is increased or decreased in accordance with changes in labor and commodity indices applicable to the industry. This clause, when operative, adds to the auditing function.

3. b. Purchase and Hire or Force Account

Purchase and Hire or Force Account simply means that the Constructing Quartermaster makes direct purchases of materials and supplies and hires the necessary labor to construct the needed facilities.

In this case the auditing functions are practically the same as those previously described on the Cost-Plus-a-Fixed-Fee Project, except that all functions in reference to contractors' vouchers are not needed since all invoices and payrolls are paid directly by the Constructing Quartermaster, no contractor being present on this type of construction.

c. Emergency Plant Facility Contract

The Emergency Plant Facility Contract was developed by the War Department, the Navy Department and the National Defense Advisory Commission. The new facilities or plants are privately financed in the first instance and the Government reimburses the contractor for the cost in 60 monthly installments. At the end of five years the plant belongs to the Government, unless the contractor exercises his option to purchase by paying to the Government the cost of the plant less depreciation. Several airplane plants have been built under this plan.

These contracts are only used where the contractor has a contract to supply his product to the Government and where the price of these supplies does not include any provision for the recovery of the cost of the plant.

Under this type of contract the contractor agrees to keep records and books of account showing the actual cost to it of all items of labor, materials, equipment, supplies, services and other expenditures of whatever nature either in connection with the acquisition or construction of the Emergency Plant Facilities, the care and maintenance, or the restoration, reconditioning or replacement thereof.

The Contracting Officer or his duly authorized representative shall at all times be afforded proper facilities for inspection of the Emergency Plant Facilities, both during and after construction, and shall at all reasonable times have access to the premises, work and materials, and to all *books* and *records* referred to in the foregoing paragraph.

The Contractor shall, not later than the 15th day of each full calendar month after the date of the contract, furnish the Contracting Officer a monthly statement, certified as correct by the Contractor, and within 30 days after the close of each calendar year an annual statement, certified as correct by an independent public accountant, approved by the Contracting Officer, showing in detail the amount, if any, expended during the preceding calendar month or year. This report of the independent public accountant is used as the basis for the repayment to the Contractor.

4. Supervision and Inspection

To provide that all required audit procedures be properly maintained and more or less standardized, several provisions are made for inspections and follow-ups which result in corrective recommendations when needed.

a. Traveling Supervisors

One of the sections performing this supervisory function is the Field Audit Supervision Section. This section sends out Traveling Supervisors covering the entire country. These supervisors make regular inspection trips and, when necessary, suggest corrective measures to the Project Auditor; when these measures are suggested, the supervisor calls back in a specified number of days to see that recommendations have been carried out.

b. Zone Organization

In addition to the supervision given by the Traveling Supervisors mentioned in the previous paragraph, further supervision is given by the Zone Chief Supervising Auditor. The country is divided into nine zones corresponding to the nine corps areas of the Army, and in each zone all the construction is in charge of a Zone Constructing Quartermaster. This Zone Constructing Quartermaster has an office set up with several departments. One of his departments is headed by a Zone Chief Supervising Auditor who has a crew of auditors traveling in the zone making inspections and suggestions and acting as trouble shooters. This group, too, makes recommendations when necessary and then calls back later for follow-up.

c. Inspector General's Department

From time to time and supplementing all this other supervision, officers from the Inspector General's Department (a department entirely separate from the Quartermaster Corps) inspect the projects and report on all phases of the Constructing Quartermaster's operation of his station. All comments in this Inspector General's Report in reference to the Project Audit Section are referred to the Accounts Branch for information and corrective action.

5. Audit and Control by Other Departments

Further Audit and Control is performed by other departments so that an independent viewpoint also obtains.

a. Office of the Chief of Finance

The Office of the Chief of Finance is another department of the War Department entirely separate from the Quartermaster Corps. The Chief of Finance designates a Disbursing Officer, called Finance Officer to pay all approved vouchers coming to him from each project.

When vouchers come to the Finance Officer they are audited by him as to the legality of the disbursement and as to the availability of funds under the specific appropriation the voucher is to be charged to.

b. The Comptroller General

The Comptroller General of the United States heads an agency called the General Accounting Office. All vouchers paid by all Government agencies ultimately come to this department for a final audit and determination of the legality of the disbursement under the Statutes, Comptroller General's Decisions and the terms of the contracts.

If a disbursement is not approved by this office the amount is charged back to the disbursing officer who made the payment, and if he cannot receive refund from the person who presented the voucher it then, ordinarily, becomes the disbursing officer's pecuniary liability.

c. Budget and Appropriation

Another control of the Constructing Quartermasters' disbursements is exercised by the Budget and Estimate Section. This section coordinates the annual and supplemental budgets based on detailed estimates prepared by the various branches of the Construction Division. These estimates are then defended before Congressional committees at which point the estimates may be increased or decreased. Appropriations or authorizations are then approved and passed by Congress. The Fiscal Division of the Quartermaster General is then notified by the Bureau of the Budget the amount of funds apportioned to the office of the Quartermaster General. The Fiscal Division in turn apportions funds to the Construction Division. Funds are then allocated to for each station based on the budget estimates and subsequent Adjutant General's directives. Construction authorizations are prepared by the Engineering Branch, authorizing the Constructing Quartermasters to proceed with the work and obligating the funds. Allotments are then made to the Constructing Quartermasters based on the construction authorizations which cannot exceed the ceiling set up by the Adjutant General's Directive. Concurrently, the Constructing Quartermaster on the project, the Chief of Finance and the General Accounting Office of the Comptroller General are notified of this allotment. The Project Auditor keeps a record called Status of Funds. In this is recorded all allotment of funds and all disbursements against these allotments. When the Constructing Quartermaster approves a voucher for payment he certifies to the Disbursing Officer that funds have been appropriated and are available to cover this disbursement. The Finance Officer making the disbursement under the voucher also checks to see that the appropriation has not been exceeded. Likewise the General Accounting Office of the Comptroller General determines that the Finance Officer has not disbursed funds in excess of the allotment and that they have been expended for the proper purposes.

The Accounting and Reports Section of the Accounts Branch maintains records of all funds appropriated and apportioned to the Construction Division. Station amounts have been set up for all fixed fee and lump sum projects in which are recorded the apportionment allocated to the station, the amount earmarked for construction and the allotments made against such authorization. Records for each station are maintained by Appropriation and Budget. Records are also maintained for funds other than construction including Administrative. This section has been completely modernized and keeps its records by the use of International Business Machines.

6. **a. Amortization**

Under the excess profits tax law, taxpayers who construct facilities necessary for national defense may amortize the cost of such facilities over five years. Where the taxpayer has a contract with the Government, he must also show either that he has not been reimbursed by the the Government for the cost of the facilities or that the Government has adequate protection in the future use or disposition of the facilities. The right to the five-year amortization is evidenced by certificates issued by the department concerned and by the National Defense Advisory Commission.

Extent of Interim Work Acceptable for Year-End Examinations

From the Viewpoint of the Larger Client

By Benjamin L. Enloe, C.P.A.

At the outset it should be stated that the subject refers only to so-called balance sheet examinations for which one report is issued covering the year's operations and where the auditor, among other reasons, wishes to perform interim work to facilitate the completion of the examination after the close of the year and help distribute his work throughout the year. It should be understood therefore that the subject does not include detail audits, investigations, or other special work.

Our subject has been divided into two sections, namely from the standpoint of the larger client which I have been assigned to discuss and from the standpoint of the smaller client which Mr. Lockwood is to discuss. There may be little, if any, distinction as to extent of interim work according to size of client as we know that in general the same principles of auditing are applied regardless of size of the company. We do know, however, that certain of our work may be extended or curtailed according to the effectiveness of the system of internal check and control and that often a system of internal check may be more complete in a larger company where the accounting responsibilities and duties are divided among a greater number of employees. Further, a larger company often has an internal audit staff which directs a great deal of its attention to determining the accuracy of detail transactions. The amount of detail audit work performed, therefore, may vary according to size of company, with resulting differences in interim work.

Interim work for year-end examinations falls generally into two main classes: first, work which would otherwise be required at the year-end and second, work which is accepted in partial or complete substitution of work which would otherwise be done at the year-end.

The first class, namely work otherwise necessary at the year-end, let me make clear, is not substitution of one test for another since the exact audit steps are performed at the interim date which would be performed at the year-end if no interim work were done; it is therefore merely a question of time of doing the work. The nature of these tests, however, imposes limitations on what it is possible to do since in a balance sheet examination the emphasis is placed on examining the balance sheet at the end of the year and the profit and loss statement for the year, neither of which are available at the interim date. However, since we are doing exactly the work at an interim date that we would be doing at the year-end, the availability of items to check is the only limitation.

Let us consider some of the work which may be performed at the interim date instead of at the year-end. One which comes to mind is the vouching of property additions and review of sales and retirement of property. If we feel on a certain audit that property additions or re-

---

Presented before the Eighth Annual Chapter Conference of the New York State Society of Certified Public Accountants, June 27-29, 1941.

tirements of, say, $500 or more are to be checked, we can check at the interim date all which have been recorded prior thereto with no other effect than to save time at the year-end. A partial list of other work which may be done at the interim date follows:

(1) Tests of cash transactions for a selected period.

(2) Reading of minutes to interim date.

(3) Examination of contracts entered into since the last examination.

(4) Summaries and analyses of profit and loss accounts from first of year to interim date.

(5) Review of reports which may have been received from Treasury Department on income taxes.

(6) Examination of brokers invoices for purchases and sales of securities.

(7) Vouching of payments to interim date for taxes, insurance, etc.

(8) Tests of sales invoices and registers for selected periods.

(9) Tests of payroll records.

(10) Preparation of lead schedules, work programs, draft reports, etc.

This list is by no means complete but indicates the sort of work we may and probably all do to insure that we will be able to finish the final examination by the required date. This class of items does not require extensive consideration and most of us would agree that the desirable procedure is to complete as many of them as possible since practically hour for hour the time spent on interim work saves year-end time.

The second class of tests, namely, those performed at an interim date which may be accepted in partial or complete substitution for year-end tests requires considerably more thought and discussion. It is not the purpose of this paper to give definite conclusions on this subject; all of us know that the audit procedures followed may depend upon a great variety of conditions and circumstances. In some instances it may be found that no interim work can be accepted in lieu of year-end tests while in others considerable interim work may be acceptable. However, it has been recognized, as for example in the pamphlet "Extensions of Auditing Procedure" issued by the State Society in 1939, that the auditors work may be carried out at different times during the course of the year and it is our purpose to suggest possible methods which may be followed in some circumstances to accomplish this.

The first account which may be discussed is cash. It may be decided to make a complete reconciliation of all bank accounts at a selected interim date, including proving the checks with bank statements, tracing the checks to the cash disbursements book, proving the outstanding checks, reconciling receipts with deposits and disbursements with withdrawals, footing cash records, comparing deposit slips with cash books and completing all other procedures which would be employed at the year-end to verify the cash in bank if no interim work were attempted. If all this is done, it might be deemed permissible in some circumstances to limit the cash work at the year-end to such audit steps as: obtaining bank certificates; proving arithmetical accuracy of the company's bank reconciliations; tracing undeposited receipts at the year-end date to subsequent bank deposits; accounting for all miscellaneous reconciling items obtaining bank statements and paid checks at a date subsequent to the year-end and tracing all dated prior to the year-end to the list of outstanding checks prepared by the company; carefully inspecting the remaining checks as to first bank endorsement, payee, amount, etc., to determine that they were in fact issued after the year-end date; and finally making other general reviews

and tests which in the judgment of the auditor are necessary to satisfy himself that the cash in banks was correctly stated. Work incident to checking the cash in banks is for two principal purposes: first, to make tests to prove the detail records and, second, to prove the correctness of the cash balances as shown by the books. The correctness of detail records is assumed if tests and checks do not develop irregular items and since all transactions for the year cannot be tested, any period selected is presumably as good as another; in fact, it is preferable not to select always the last month of the year since the employees soon expect just that. The interim work may be chiefly to test the detail transactions; the year-end work might then be directed principally to proving the correctness of cash in bank at that date.

Another important account to consider is accounts receivable. Since the extensions of auditing procedure suggested by the State Society in 1939 it has been normal procedure to test receivables by direct communication with debtors. The question naturally arises as to dates of such tests. The Society has stated in its bulletin that the tests may be made at such times as the auditor may determine in his judgment. He may decide that the circularization may be made at an interim date during the early or latter part of the year, and if so it is generally desirable to do it as considerable time is required for this work which could be saved in what would otherwise be year-end time. We need not at present consider the extent of the tests as this would not necessarily depend upon the circularization date. The next question to ask is what, if any, additional confirmations are to be requested at the year-end if receivables are confirmed at an interim date. Here again it depends largely upon circumstances. If there are large accounts at the year-end which are slow of collection or otherwise seem more doubtful than at the interim date, it may be desirable to request confirmations whether they had been previously selected for confirmation or not; also if the returns from the interim circularization have not been satisfactory, it might be desirable to supplement it with a circularization of selected accounts at the year-end. On the other hand, in some circumstances the interim confirmation of the receivables may be accepted in lieu of one at the year-end. If receivables are confirmed at an interim date, other work may also be considered desirable in lieu of year-end work: for example, a complete trial balance of the receivables may be obtained and checked from the receivable ledgers, such trial balance being aged or not depending perhaps on what is obtained at the year-end. All of us know what we would consider a complete examination of the receivables if all of it were done at one time at the year-end; in some cases such complete examination may be made at an interim date including the determination of the adequacy of the reserves for bad debts, discounts, etc. and the year-end work limited to the extent determined in the circumstances, some of the principal steps, perhaps, being the following:

(1) Obtaining a trial balance of receivables, testing footings and making limited tests, especially of the larger and older accounts, to the ledgers; also agreeing the total of the trial balance with the general ledger control.

(2) Comparing trial balance generally with the one at the interim date, inquiring into any important differences in amounts or age of accounts.

(3) Inquiring into changes in general or specific business conditions which might cause important differences in the

accounts as a whole or any of them.

(4) Considering again the adequacy of reserves by review and discussion.

(5) Analyzing receivable controls and accounting in total for the important items entering into the analysis such as sales, cash collections, larger adjustments, etc. by tracing to sales accounts, cash books, etc. and investigating unusual items found.

A third important account which might receive attention at an interim examination is inventories. There the possible work depends largely upon the kind of records kept by the company. Where adequate perpetual records are maintained and supported by complete physical inventory at the year-end or physical inventories of individual items taken throughout the year the State Society indicates that the auditor's observations and inquiries of the methods of inventory taking and the physical tests of inventories under his observation may be undertaken at interim date or dates selected by the auditor. His purpose, the Society states, is to satisfy himself as to the credibility of the perpetual inventory records and whether they may be relied upon to support the inventory total as shown on the balance sheet. Suffice it to say that all tests of perpetual inventory records as to quantity or otherwise which in the auditor's judgment can be made at an interim date, should be made then instead of at the year-end. Tests may of course be required of the transactions intervening between dates of interim work and the year-end. If adequate perpetual inventory records are not available the problem is much more difficult especially where the company depends on the annual inventory to determine the results of the year; in such cases it is often impossible to do much work at an interim date which would be acceptable or save time at the year-end. Another important and essential part of the inventory work to be done at an interim date is to review the company's physical inventory instructions and discuss with the proper employees. It might also be desirable to compare with similar instructions at the beginning of the year, considering the effect of any material changes.

Another important part of an annual examination which may be given considerable attention at an interim date is the review of the system of internal check. The importance of this section of our work has been emphasized many times and is specifically referred to in "Extensions of Auditing Procedure" published by the Society. It is not sufficient to know the effectiveness of the system of internal check at the year-end unless we also know that the same system was followed throughout the year. Usually changes in accounting procedures are made gradually and the methods in effect throughout the year are ordinarily those in effect at the end of the year, but if important revisions have been made it is necessary that we be informed of them so that we may judge the possible effect of the changes on the transactions recorded throughout the year. The Society bulletin states the accepted auditing procedure that the accountant must extend the scope of the audit if deficiencies in the system of internal check are found. If the deficiencies are found at the interim date additional work may be done at that time which would again save year-end time since such extensions would ordinarily be directed to testing detail transactions recorded during the year. Indications might also be found for additional work or revisions in procedures at the

year-end. Assume therefore that a complete review of the system is made at an interim date, what further is required along these lines at the year-end? The minimum requirement would probably be that the auditor satisfy himself that the same procedures were in effect at both dates. Two general methods of supplementing the interim review are suggested for the year-end work: one, that during each section of the audit consideration be given to the internal check system as to whether any change has been made and, another, that general inquiries also be made of employees and officials as to whether any changes have been made. As already stated, any important changes found between the interim date and the year-end may require additional work on certain accounts.

In some circumstances interim work might be directed to studies of costs and cost systems, discussions of accounting problems encountered by company officials and employees, and discussions of the form in which the accounts should be presented. Other interim work might also be mentioned as the subject has by no means been exhausted; an attempt has merely been made to give some general observations about certain accounts with the thought that they will start a discussion in which all of us can participate and bring forth experiences from which all of us may benefit.

Interim Work Acceptable for the Year-End Examination

From the Viewpoint of the Smaller Client

By Maynard W. Lockwood, C.P.A.

THIS paper represents my own personal views on this subject. As such, its content is not offered as statements of fact, but rather as ground for discussion.

The discussion of this subject has been divided into two parts—from the viewpoint of the larger client and from the viewpoint of the smaller client. Mr. Enloe has discussed the topic as it applies to the larger engagement. The thoughts presented below are offered as additions to meet the special needs of the smaller client rather than as a substitute program.

As a matter of personal opinion, I have always felt that there was a difference between these two classes of engagements, both as to the opportunities and the duties of an auditor. The smaller client rarely has available persons or departments capable of presenting him with the analytical reports similar to those which the larger business units find so helpful and necessary to the efficient conduct of their operations. It is in fulfilling this need that the public accountant has his opportunity; this opportunity in many cases is vital enough to be almost an obligation. This very useful service can most conveniently and most effectively be rendered at times other than after the close of the fiscal period.

Another obvious distinction between the two classes of engagements arises from the usual lack, either partial or almost complete, of internal control. These two major differences, if they are to be properly handled, require a deviation from the procedure usually considered necessary for a strictly balance sheet audit. Perhaps the best type of engagement for both the client and the accountant is a combination of the balance sheet audit, a moderated special investigation, together with some detailed audit work.

The value of frequent contact with the client, especially when accompanied by suggestions as to changes in accounting procedure or presentation of vital statistics, is obvious.

Much of the work required to accumulate the necessary information to satisfy the above mentioned needs is coincidental to operations which could properly be handled as interim work under a strictly balance sheet audit.

One operation which does not require a great deal of time, but is very useful, is the taking off of an interim trial balance, perhaps at the end of the half year period. This not only makes available a summary of operations at this time for analytical purposes, but also establishes in the auditors' working papers a hitching post to which he may attach such analyses as can properly be made at that time.

The interim work in connection with the verification of cash transactions naturally would include a verification of cash funds maintained in the company's office, together with a test examination of vouchers substantiating expenditures from these funds. In connection with this operation, expenditures might well

Presented before the Eighth Annual Chapter Conference of the New York State Society of Certified Public Accountants, June 27-29, 1941.

be examined from the viewpoint of necessity of making them in the form of cash, as well as examination as to proper verification and approval.

Since internal control is usually not as complete in the smaller organizations, the surprise element in regard to the interim examination of cash transactions can be valuable. Often a transcript of the ledger cash accounts may prove valuable. It certainly requires little time for preparation and establishes at least to the extent of total receipts and disbursements the period covered by the interim check.

Accounts receivable in many companies represent a major portion of the firm's assets; as such their importance cannot be over-emphasized and verification by direct correspondence with the debtors can probably be as effectively carried out at an interim point as at the end of the year. Here again the element of surprise may make an interim check even more valuable. It seems probable that such interim verification might more fittingly be made in the latter half of the fiscal period, although this is not necessarily definite. From the viewpoint of verifying the year-end balance sheet, such verification should be reasonably close to the year-end period. From the viewpoint of auditing as a check in lieu of proper internal control the element of surprise carries much weight.

An interim trial balance aged according to billing dates, a scrutiny of credits and allowances, together with an examination of authorization; investigation as to the adequacy of the reserve for bad debts, especially if this reserve is provided for by setting aside an amount based on sales and an examination of internal office procedure in regard to the handling of sales, payments received and the general conduct of the credit department can all be valuable both as an aid to management and as a necessary safeguard where proper internal control is not existent.

The procedure on notes receivable can be very similar to that of accounts receivable. A verification through correspondence with banks as to notes discounted perhaps can be carried out at the interim date in addition to the verification at the year-end date.

An examination of amounts due from officers, employees and accounts receivable of a miscellaneous nature might well be made at times other than the year-end. These accounts at iterim periods may very well be the subject of abuses which are corrected for the year-end statements. A transcript of these ledger accounts may again be considered valuable.

The subject of inventories which is of course very important, has been discussed quite thoroughly by Mr. Enloe. An aspect of this work which perhaps can be investigated at an interim date is the method used by the Company in arriving at a valuation of work in process, especially from the viewpoint of the application of burden. Physical tests can also often be made at times other than the year-end if subsequent operations can be analyzed accurately enough to effect verification of year-end inventories.

The verification of changes occurring in Fixed Asset accounts together with the setting up in the working papers of schedules for the reserves for depreciation, is of course, easily adaptable to interim performance. An analysis of prepaid accounts, insurance, expenses, etc., can be made at an interim date; in connection with insurance, policies of course can be examined and investigation as to the adequacy and completeness of coverage can conveniently be carried out at other times than after the year-end.

Miscellaneous assets very often can be verified. The scope of such verification or examination is of course greatly affected by the nature of the miscellaneous item. Test examinations of vouchers naturally can well be carried out at times other than the year-end. Comparison of balances with statements from creditors may also be made, not necessarily as a substitute for investigation of year-end balances, but more as an additional investigation. Here again it is possible that the element of surprise may have a beneficial result. An examination of notes payable, including confirmation, may at times be desirable where the amount of such paper is important or where internal check on the issuing of such paper is not completely satisfactory. An analysis as to the financial requirements in the matter of monthly payments very often is useful to the management especially if the company's financial position is not very favorable.

Accrual accounts usually lend themselves very well to interim examination. Two comparative newcomers to this field, especially can be investigated at an interim date, namely, Federal and State taxes for unemployment insurance and old age benefits. In the case of smaller clients, changes in these tax laws may not be properly taken care of and interim work may often prevent the occurrence of or reduce the seriousness of errors.

The detailed testing of sales records and examination of payroll records are, of course, two items which are usually handled at an interim date. In connection with the examination of payroll records in the case of a smaller client, it is often advisable to bear in mind the question of applicability to and compliance with wage and hour regulations. Perhaps the public accountant should not attempt to act as an authority on this matter, but it appears that it definitely is his duty to call attention to the possibility that noncompliance exists and suggest to the client that he consult legal advice on the matter. In connection with assisting the management the auditor has at his disposal a trial balance. From this, with comparatively little effort, he can make out a rough draft of a P & L statement. By comparison with statements for previous periods perhaps on a percentage basis, using gross sales as a base, he can easily compare operations with those of previous periods. A few hours so spent can be of great value to the client and assist the auditor from the viewpoint of establishing good will. Many smaller clients very often develop a feeling that a public accountant is an unwelcome requirement for doing business. It seems that there is no better opportunity or time to discourage this feeling than during the interim period.

Corporate Financial Report Content of Interest to Employees

By George E. Bennett, C.P.A.

THE author is a member of The New York State Society of Certified Public Accountants and of the American Institute of Accountants and is Professor of Accounting at Syracuse University.

This address was made to the Syracuse Control of the Controllers' Institute. In it the author points out the desirability of presenting to corporate employees, in readily comprehensible form, some of the financial and statistical facts of the enterprise. Though the address was made to corporation Controllers, some of the ideas presented may be used by independent certified public accountants.

* * *

When conditions are propitious, I enjoy being different. Hence, there are times when I enjoy making a speech or reading a paper which I consider unusual. I have that idea in mind tonight.

Undoubtedly, there have been occasions when some of you have let your minds wander a little "out of control" and have thought, to some extent, along the lines I shall follow this evening. Others among you have not thought about the matter at all. Some, will agree, in part, with my central theme; others will say that I am just a "wacky" college professor.

Tonight I intend to talk about the desirability of the furnishing, by the management group of employees, to the operating group of employees, of some useful information about the corporate enterprise which is the employer of both groups and to the service of which both groups of employees are devoting, jointly, all their working hours.

At the outset, I admit the existence of three conditions which, if not expressly recognized my me, will cause some of you to say that I have overlooked them completely. The first is that you are employees, not employers; hence, even if you admitted a desire to do something constructive along the lines which I shall suggest, some would find it impossible. The second is that in certain instances companies which have done a great deal for their employees have had painful experiences. The third is that what some of you would call the three outstanding things an employee has in mind regarding his job do not seem to include the basic idea of the points mentioned later.

Those three things are as follows:

1. An employee is interested in getting all he can out of his job. You cannot blame him for that.

2. An employee is interested in holding his job. This is natural.

3. An employee is interested in being able to present his grievances to some one in authority and in having such person listen to them.

The scope of my remarks requires precise definition. I intend, this evening, to offer some suggestions about making available to the employees of the usual manufacturing plant some of the information that could, and often should, be contained in the financial reports issued by the enterprise that owns and operates that manufacturing plant. Too often, as we all know, manage-

Presented before a meeting of the Syracuse Control of the Controllers' Institute of America, April 16, 1941.

ment officials restrict those reports to the irreducible minimum of financial statements, expressed in the conventional jargon of accountants, accompanied by only the short report (certificate, so-called) of the independent auditor.

From the viewpoint of those employees of the corporation who may be thought of as its operating force, those statements and that short report are not informative. At best, they will have only some slight meaning to a few members of that group, and no meaning to most of the others. Usually that group of employees never has a chance to see the reports.

In my opinion no report can be called a good report unless the information conveyed thereby is presented in such manner as to interest its readers and to stimulate them to effective action. It is hardly necessary to say that most published reports fall short of that ideal.

Recently I had occasion to review and criticize the published reports of three large-sized business enterprises. Two of them contained practically nothing of interest. It is not unfair to state that, for most persons, they were basically unintelligible. The statements and explanatory notes were so condensed and summarized (with dissimilar elements combined) that, for practical purposes, they were useless. In each report the auditor's short report (certificate) described in similar terms the adequacy of the scope of the examination and expressed the opinion that the statements presented fairly the financial position of the company. The corporate reports contained nothing about the specific conditions of the business enterprises. Yet the two types of business were wholly dissimilar.

The third report, however, was one that was worth, at least, moderate commendation. Some of the ideas therein offered are mentioned later in this paper; some have been mentioned in talks and papers it has been my pleasure to deliver previously upon the topic which interests me this evening.

I submit that those responsible for the first two reports mentioned may be considered as being in a rut. And I submit, also, that those responsible for emitting reports which do not interest and stimulate persons to effective action are in the same rut. Further, I submit that the auditors are not the persons to blame. You in this group who have a point of view which will not permit your outside auditors to suggest improvements in your corporate reporting are equally guilty of being in a rut. Remember, a rut is a rut nevertheless even though lined with soft silk and with petals from fragrant field and garden flowers.

If accounting data are to be used, they must be placed in convenient reach of, and in understandable and interesting form for, those whose interest and confidence are basically essential in making things hum. One does not catch flies with vinegar.

Describing still further the limitations of my remarks, I propose to make no mention here of how report material may be made intelligently available to department heads and to foremen. Reams of printed matter have been written concerning reports directed specifically to them.

On the other hand, I ask you to focus your attention, for the moment, on only some of the means whereby report raw material may be offered in usable form to those who labor on a lower level than that on which managers and foremen work. Even though many workmen have a high degree of intelligence and an ability to comprehend figures, the rank and file should not be considered as being thus equipped.

Many will insist that employees should not enter at all into the picture of net profit activity except to function at top speed with minds empty of everything except what is necessary to make the mechanical motions required to produce and move product. Many believe that they should be subject only to adverse and profane criticism when net profit slumps—slumpage cause to be disregarded. And many in high places say that never should they be given a word of sincere and honest commendation. I submit that this is all wrong. In our work we tend to lose sight of the need to educate and revitalize the men who, because of notions in error and almost without warning, may foment trouble and disorder.

It is revolutionary—hence taboo—to suggest that employers and men in industrial high places need an elementary education, at least, in the economics of labor relations. Seriously: if the rank and file of employees of a business establishment know what actually is going on; where they stand in relation to their fellows and to the profit outcome both individually and collectively; and know that they are not being exploited; order and production activity of high attainment unquestionably will result, even though the end is not always a perfect one.

It seems axiomatic that a candid-camera knowledge of day by day conditions and a wide if not intimate acquaintance with the working men in a plant are basically essential. How many of us can say without equivocation that we have extended ourselves to the point where such knowledge and acquaintance are ours? How many of us have refused to run the chance of soiling the cuffs of our trousers with oily sawdust or metal shavings to acquire such knowledge?

Some reports actually fall away slightly from the straight and narrow way of conventional presentation so that they contain a small (at times weird) collection of statistical tables, curves and graphs. But these are apt to be an unrelated collection, the result of ideas picked up, hit or miss, on the outside. Thus, they represent planning with little or no regard to the specific case and to its currents of underlying conditions (perhaps the term "planning" has been poorly chosen). But even assuming that some of them have a modicum of value, few persons would suggest—and then only in a whisper—that they be copied, even partially, and be tacked on the bulletin boards for all to examine who may desire to do so.

However, such material usually fails to promote what was intended; often, an intended use other than as a space-filler is doubtful. Generally, they are constructed with no thought of appealing to a "man-in-the-street" intelligence. The praise of a swivel-chair critic seems more to be desired than simple manifestations of pleasure and delight from the man with soiled coveralls and dirty hands.

I fear that these suggestions, as here presented, may make me appear in a false light. I am not a Socialist, a Bolshevist, a Fascist, and certainly am no Hitlerite. But since I have had association at numerous times with he whom the politicians speak of as "my friend the working man," I believe I have a fair idea of his point of view. Such being the case, I have more than a mild interest, and more than a theoretical one, in the ideas broached in this paper.

I have attempted to project myself into the position of one of those human automatons who, if given the opportunity to see such portions of reports as involve and concern him — assuming such reports contain these features—would make

a definite effort to understand them and, who—assuming an understanding thereof—would appreciate the importance of the part played by him and his fellows in the operation of the plant and hence in the national economic structure. Just what would be of interest to such a person?

Employee confidence can be secured only through cooperation and that confidence is promoted by showing truthfully and in a simple manner what is being accomplished—and the cost thereof. However, that confidence is not promoted to any considerable degree by pointing out that management salaries are ¼ of 1% of sales, or by showing that they are 7 cents per unit of production. The truth may have been told, but the method of telling it is almost useless.

A "pie chart" may be read intelligently in certain circumstances. I saw one the other day—part of the report issued by a large business—which was a beautiful piece of color blending. Yet, except to the figure-trained mentality, I am certain it missed the bull's-eye by a considerable margin; in fact, I think that it missed not only the center but the complete target. Each highly colored segment was labelled with a percentage figure.

Although I am informed that the teaching of arithmetic usually stops in the seventh grade, I know that college seniors experience difficulties with many of its elements; and percentage is a troublesome portion of the subject. Hence, may I raise the query: Is it simpler to understand that 8.7% of each sales dollar was spent for administration, or that a trifle less than 9 cents from each dollar received from sales was so spent?

May not an employee gain a feeling of a certain amount of personal importance, with a resulting pride for his job, if he is shown approximately how many dollars of investment in fixed property elements (buildings, machinery and equipment) are in use in order to carve the niche in the scheme of things in which he has selected to function? How about showing what it costs to make a trained operative of a particular class?

May there not be some value in pointing out in a simple fashion to what extent each dollar of wages could be increased were it possible to eliminate the greater portion of theft and destruction of working materials and tools? And could it not be shown in terms of consumable necessities—or even of the luxuries nowadays considered, by most persons, as necessities—just what is lost per employee classifications or groups when a plant has to shut down for a time?

Why is it not a good idea under certain conditions to show graphically in a simple manner where each employee in the business, or in a certain portion of it, stands in relation to others—just how far down or how far up in the picture he is located? And in some such fashion why not show each employee what must be accomplished in order to move upward and onward?

What harm can it do to a business to show how the volume of each salesman's unit sales compares with that of the other salesmen?

In one particular instance one salesman was doing something like $90,000.00 turnover per year at a salary of $50.00 per week plus expenses, while another was doing only $6,000.00 per year on a salary of $25.00 per week plus expenses. Naturally, the ratio of expenditure against return in these two cases was wholly different and led to certain unpleasant employee reactions.

And in the same strain, from another case I found that one section of the plant was costing $5.00 per week per head for supervision, whereas another section was costing

only $0.50 per head—yet both were doing the same work at practically the same rates of return.

How often do we show by means of some simple picture how much is being paid out in taxes of various kinds per dollar of sales, or per dollar of payroll? And again, by the same token, how often have we attempted to show the effect of fixed expense on holding down the wage level?

Per dollar of investment, would it ever be prudent, in some plants, to show the yearly amount of executive salaries and indicate how much of the net profit (such salaries excluded) is consumed by them when the deduction is made? Again, how many cents per dollar of sales do executive salaries consume as compared with the working payroll? Further, what part of the total payroll do such salaries comprise?

I have said nothing (except as above) on offering information which may show how bad an executive actually is—as to what loss was caused by poor foresight, and what amount thus was lost to each employee in wages in order that a desired profit minimum might be maintained. For example, what expenditures are being incurred in several directions without any direct result? Charges made to various accounts may, on the surface, appear to be reasonable whereas analysed returns versus analyzed expenditures may show expenditures far in excess of results achieved.

The annual report of one nationwide corporation contains a sheet on what has been done for the employees. It is offered as a statement of management, not part of anything under certificate of audit of the Certified Public Accounting firm. And this is proper; but the matter is one for both parties to confer upon.

The size of the concern will influence the type of information to be offered. The large company has facilities for preparing that material; the smaller one has not facilities to do very much. Nevertheless, generally speaking, both types can and should do more than is being done—particularly in relation to the three outstanding things an employee has in mind regarding his job, as mentioned in the early portion of this paper. The outside accountant should prove of great value in this connection.

What is offered today, especially by the larger company, relates to employee relationship — employee welfare, accident prevention, wage trend, and employment trend. I raise the point of going further than this—of going into operating figures to prove that what is being done is all that reasonably can be expected; for example, the relation of employees to the profit and loss result of the enterprise and even to some of the items displayed in its balance sheet—along the lines above suggested.

Beyond a shadow of a doubt there is value in disclosing many so called intimate details of management—as cost of advertising, cost of management, cost of other indirect factors, etc. But in this connection, it is only fair to mention a certain precaution. When everything is moving smoothly toward a profit end, and things are being done, the situation is much different than when a loss appears certain. In relation to the latter situation employees are apt to misunderstand, and to forget past good times. Then it may seem most pertinent to offer information based upon a fair number of years' experience rather than upon the bad year only. Again, care must be taken to weigh the evidence where large profits are made compared with investment so that misconceptions will not enter the minds of employees. Further, it may be desirable to offer figures which represent the experience of all concerns

within a given field. And a business with a high labor factor should not be treated in the same manner as one with a low labor factor.

Some will say that—in the face of the Wagner Act; the attitude of the present Federal Administration; and the reaction of the Securities and Exchange Commission (which apparently favors stereotyped audit reports); to attempt anything is useless. Nevertheless, some concerns are doing things and they have had success. A solution must come when the right type of analysis has been made. If a profit-sharing scheme, for example, underlies the success of a particular venture in this field, well and good. If some other basic method furnishes the approach, also, well and good. The solution may not be easy in a particular case, but it does exist, in my opinion.

The above ideas seem sufficient to indicate the trend of my thoughts on this topic. Should any of you permit your minds to wander back over past experiences—personal and otherwise—I am certain that you could add to the collection of suggestions above offered. If not prejudiced, your intelligence will cause you to agree with me that much can be done with figures to promote better relations between employee and employer. We need better financial reports, or reports supplementary thereto, and also a wide dissemination throughout our manufacturing plants of simplified summaries compiled therefrom which actually tell a story, or emphasize an event, couched in language at the level of the "man in the street."

Tax Problems of Automobile Dealers

By William L. Donohue, C. P. A.

Mr. Chairman and Fellow Members of the Society: The automobile dealer is subject to every form of tax applicable to a retail merchant including sales, income, occupational and similar taxes; consequently, from a tax standpoint, the accountant will encounter a variety of problems in his examination of an automobile dealership. In this paper I intend to discuss only those tax problems which are peculiar to the automobile dealer, with particular reference to practices recommended in the General Motors Dealers' Standard Accounting System.

Sales and Use Taxes

The most important tax from the standpoint of the automobile dealer is the sales tax. Fortunately for the New York accountant, only those dealers located within the city of New York are affected by this type of tax.

The importance of the sales tax to automobile dealers was brought home forcibly to me in a report of a field auditor for the State of Washington covering a review of the records of a client for a period of less than three years from May 1, 1937, to December 31, 1939. In the State of Washington there is an excise tax, which is a combination sales and use tax at the rate of 2% and a gross receipts tax ranging from ¼ of 1% to ½ of 1%. The report issued by the field auditor indicated total tax remitted for the period in the amount of $100,877.41.

The Federal income tax for the same period was a small fraction of this amount and, as a matter of fact, the entire net income for the same period was less than the amount of sales or excise tax paid. The automobile dealer is one of the largest contributors to the sales tax.

Therefore, in reviewing the records of a dealership which is subject to sales tax, the accountant should consider himself responsible for determining that the provisions of the statutes and regulations are being properly followed by the client so that the liability for sales tax may be properly stated. If the client is failing to properly collect the tax, or if he is not setting up a proper safeguard against possible assessments, the company's liability can be grossly understated. Assessments of $5,000 and $10,000 against automobile dealers for additional sales tax are not uncommon, and they present a definite hazard, particularly since an examination of the dealer's records generally covers a two- or three-year period.

In examining for this liability, the accountant should give consideration to the sources from which assessments of additional sales tax arise.

Sales Outside the Tax Jurisdiction

In regard to these sales the accountant should examine to see that the dealer is obtaining affidavits from customers on all sales of cars outside the sales tax jurisdiction which are deemed to be exempt from the tax. In an automobile dealership, the usual evidences of delivery found in other lines of business such as freight charges, or expenses of delivery, are not available. The car can be delivered anywhere practically without expense being evidenced in the records, so that there can be reasonable doubt about whether a

---

Presented at a meeting of the Society's Technical Committee on Automobile Dealers' Accounting held April 16, 1941.

car has actually been delivered outside of the sales tax jurisdiction. If the sale and delivery are made within the taxing jurisdiction, the sale would be taxable even though the customer may live outside the jurisdiction. Therefore, when a delivery is made outside which is not subject to the tax, an affidavit attesting to the place of delivery should be obtained from the customer, and the car should actually be delivered to the customer outside of the jurisdiction.

Sales tax examiners generally question (and they are within their rights in questioning) non-taxable sales to points beyond one hundred miles of the tax jurisdiction. Such deliveries should be supported by some evidences of the expense of delivery. For example, if a dealer in New York City should sell a car to a customer in Atlanta, Georgia, the sales tax examiner could justifiably claim the sale to be taxable if there were no evidence of the delivery of the car to its destination or at least of delivery outside the city, and particularly if the sale was supported only by an affidavit of the customer that delivery was taken outside of the jurisdiction.

It has recently come to my attention that the New York City sales tax authorities have been taking steps to correct the practice before it goes too far, by using the list of non-taxable sales required to be attached to the dealer returns and writing to the persons listed to determine whether the addresses are legitimate and inquiring whether they actually purchased the car and had it delivered outside of the City. In many instances a customer answers the inquiry, stating that he took delivery at the showroom, whereas the dealer has claimed that delivery was made outside of the tax jurisdiction. In such cases, the dealer is held liable for the tax and, since the tax on the sale of a new car varies between $10 and $20, it does not take very many of these transactions to build up a sizeable assessment.

Sales for Resale

I wish to mention, in passing, that dealers who sell parts and accessories to neighboring garages for resale should obtain resale certificates from such purchasers so as to support the claim of non-taxability and, in the case of each transaction shown to be exempt from the sales tax, the purchaser's license number issued by the sales tax authorities should be indicated on the parts sales slip.

Purchases from Outside the State

Because of the nature of the business, the automobile dealer purchases many items, such as equipment and supplies, from the factories which are located outside the State, and these purchases are subject to the sales or use tax. Many of these or other purchases may be originally intended for resale, but are subsequently converted to the dealership's own use, such as parts taken from stock to repair a tow truck, or house demonstrators. These items should be tabulated and reported on the sales tax returns, and the auditor should examine to ascertain that the liability for these purchases is being properly provided for.

In reporting these items on the sales tax return, there is a common error made by New York City dealers, which oftentimes results in a small additional assessment. In the city of New York the dealer is required to pay either the tax computed from a tabulation of taxable items, or the actual amount of sales tax collected, whichever is larger. When the sales tax liability is computed, including the liability for tax on purchases and use tax, if this amount is less than the actual tax collected from the customer it is necessary to determine the sales tax on purchases and use tax separately, and add the amount thereof to the actual tax collections in determin-

ing the liability. In other words, it is not permitted to offset the excess tax collected on customers' sales against the dealer's own liability for tax on purchases and use.

Federal Income Tax

From a standpoint of Federal taxation, there are not many assessments levied which are peculiar to the automobile dealer. There are, of course, the regular problems of depreciation and amortization of improvements to property, particularly used car lots, and such questions as are common to all businesses. However, special problems do arise in regard to the valuation of inventories and the proper reporting of income from finance charges.

Valuation of Inventories

Under the General Motors system, all inventories, with the exception of used and repossessed cars, are recorded at cost. But probably the most important inventory on the books of any automobile dealership is the inventory of used and repossessed cars, for the reason that invariably it represents the major part of the capital invested in the dealership. The proper valuation of the used car inventory is therefore important, because an accurate determination of the profit of the company depends upon a correct valuation of the used car inventory. We find in practice that the valuation of used cars varies widely, sometimes following the procedure recommended in the standard system, oftentimes dependent upon the method of operation by the dealer. We may find that the inventory is recorded at trade-in value of the cars based upon an appraisal by a company official, or at cost representing the amount allowed by the dealer, or upon a valuation determined from used car guides published by various dealer associations. The standard system recommends that used and repossessed cars be stated at appraised current selling prices.

When the car is recorded on the books the difference, if any, between the market price and the amount allowed the customer as a trade-in allowance, is charged directly to a profit and loss account entitled "Over-allowances." The market price is reduced by the amount of repairs estimated to be required to sell the car at the current market price. As the repairs are made, they are charged to the used car, thus bringing the value of the car, after reconditioning, back to current market value. At the end of each month those cars still in inventory are revalued to current market, and any change in value is charged to a profit and loss account entitled "Adjustment—Used Car Inventory." In this way, the valuation is maintained at current market value. At the same time a reserve is provided for the estimated expense of selling the cars in inventory on a predetermined percentage, based on the experience of the dealer. This reserve is set up at the end of each month by a charge or credit (depending on whether the inventory of used cars decreases or increases) to a profit and loss account entitled "Adjustment for Used and Repossessed Car Expenses" and an offsetting debit or credit is made to a reserve account entitled "Reserve for Used and Repossessed Car Expenses."

The use of the reserve oftentimes is questioned by revenue agents on the ground that it is a contingent reserve; but actually it makes no difference whether the provision for the selling expenses is made through the use of a reserve or by a direct reduction from the inventory. The Reserve for Used and Repossessed Car Expenses is a valuation reserve and not a contingent reserve.

This procedure raised two questions, from an income tax standpoint. First, whether it is permissible for

a company to value the inventory of used cars on a different basis from the other inventories; and, second, whether it is permissible to deduct the estimated cost of selling the used cars in inventory.

The answer was given early in the history of the income tax. The original opinion was issued in a recommendation of the Committee of Appeals and Review, Reference ARR 3549, CB II-2, page 35, at which time the committee passed on a proposed assessment for the year 1917 against a dealer company because the inventory of used cars was being valued on a basis different from the valuation of other inventories in the same balance sheet, although the dealer did not provide for selling expense. The Committee of Appeals and Review found the practice of valuing the used car inventory at market to be acceptable, but recommended that the selling expenses should be deducted to properly reflect the inventory valuation. The following is an excerpt from the opinion:

"It is immaterial, insofar as the inventory of used cars is concerned, whether the basis of valuing the remainder of the inventory is cost, or cost or market whichever is lower. Whichever basis is used the company is entitled to inventory used cars at bona fide selling prices less selling cost.

"In valuing the used car inventory, however, the company has failed to deduct selling cost from selling price, and to this extent the inventory does not meet the requirements of the regulations. However, it appears that the company has maintained the necessary records from which may be obtained bona fide selling prices and showing costs of used cars included in the inventory.

"It is therefore recommended that the company be permitted to adjust its inventory by deducting the selling cost from the adjusted values as shown by the books (which value should be accepted as bona fide selling prices in the absence of any evidence to the contrary), in order that the inventory may be made to conform with the provisions of the act."

The recommended procedure is in accordance with the latest regulations, and I quote the following excerpts from Regulation 103, Section 22(c)2:

". . . inventory rules cannot be uniform, but must give effect to trade customs which come within the scope of the best accounting practice in the particular trade or business . . . and greater weight is to be given to consistency than to any particular method of inventorying or basis of valuation. . . ."

"The basis of valuation most commonly used by business concerns and which meet requirements of Section 22(c) are (a) cost, and (b) cost or market, whichever is lower."

The section continues with particular applicability to used cars as follows:

". . . Any goods in an inventory which are unsaleable at normal prices or unuseable in the normal way because of damage, imperfections, shop wear, changes of style, odd or broken lots or other similar causes including second-hand goods taken in exchange, should be valued at bona fide selling prices less direct cost of disposition, whether cost, or cost or market (whichever is lower) is used. . . ."

"Bona fide selling price means actual offering of goods during a period ending not later than thirty days after inventory date. The burden of proof will rest upon the taxpayer to show that such exceptional goods as are valued upon such selling basis come within the classifications indicated above, and he shall maintain such records of the disposition of the goods as will enable a verification of the inventory to be made."

Mr. John W. Stokes, with whose firm I am connected, requested a

ruling from the Treasury Department regarding the use of the reserve in the deduction of selling expense and, on March 19, 1931, received an opinion that the procedure was satisfactory to the Treasury Department.

A deduction from the inventory of a reserve for price changes or an estimated depreciation in the value thereof is, of course, specifically prohibited by the regulations.

Income from Finance Charges

Another item which has been handled differently over a period of years is the recording of income on customers' notes discounted by the finance companies.

When a car is sold on the installment basis, the purchaser executes a note, or notes, for the deferred balance, including a service charge. The notes are endorsed by the dealer and turned over to the finance company, which remits to the dealer the unpaid portion of the selling price of the car, but not including the service charge. The service charge is the charge made by the finance company for interest, insurance, etc., and includes an amount to be returned to the dealer upon complete payment of the note by the customer to compensate the dealer for possible losses resulting from repossessions. This amount is credited to the dealer's account by the finance company and is remitted when the contract is fully paid. Thus the dealer, in addition to his regular profit from the sale of the automobile, receives as a reserve credit a portion of the service charge by the finance company. There are many variations of this plan, as new finance companies enter the field, and many of these companies pay the amount due to the dealer immediately. In these cases the amount received by the dealer is unquestionably income immediately.

Under the General Motors system, the handling of the income to be received upon complete payment of the notes has not always been handled as presently recommended. Originally the amount was immediately taken into income by a debit to the receivable account, entitled "G. M. A. C. Repossession Reserve" and credited to the income account "Repossession Fund." At the same time a second entry (and this same has since been eliminated) for the same amount was made, debiting an expense account "Provision for Loss on Discounted Notes" and crediting a reserve account "Reserve for Loss on Discounted Notes." In effect the item was taken into income but reversed, after the fashion of a reserve for bad debts. As the amounts were received from the finance company, the Reserve for Loss on Discounted Notes was reduced, and the expense account reversed, thus recording the income when actually received.

This procedure has not been specifically ruled upon, but the practice was discontinued and the second entry was eliminated from the procedure a short time after the issuance of General Counsel's Memorandum 9571, reported in Cumulative Bulletin December, 1931—page 153 —in which the income was ruled to be received at the time it was credited to the dealer. This memorandum outlines the income tax procedure thoroughly, and I quote excerpts therefrom as follows:

"In the instant case, the taxpayer uses the accrual method of reporting income, and the only question involved is whether a reserve credit allowed by the finance company to the dealer should be treated as income when the notes are accepted by the finance company and the reserve is credited, or whether the accrual of the income should be postponed until the purchaser of the automobile liquidates his indebtedness. It is the opinion of this office that, inasmuch as the taxpayer has adopted the accrual method of ac-

counting, he must be consistent in the treatment of all items of income. Such treatment under the accrual method demands that each item of income shall be accrued when earned rather than when received. This is the basis upon which the theory of 'accrual' is founded, and the possibility of an item of earned income not being received due to some unforeseen circumstances is immaterial. It is true that where an entry on the books of account is based on a remote contingency which may never happen, such item could not reasonably be accrued for income tax purposes. The contingency must, however, be something more than the mere possibility of a debtor not satisfying his indebtedness. There is always a possibility, where the relationship of debtor and creditor exists, that the debtor may not pay, due to financial reverses; but if the possibility of such failure to pay is accepted as a reason for not accruing an item of income, the whole theory of the accrual method of accounting must fall, where commercial transactions are concerned.

"In the instant case, there is just as much reason for accruing the reserve which was credited to the dealer by the finance company as there is for accruing the profits derived by the dealer as the result of the sale of the automobile. The facts show that the reserve credit is not a contingent credit but is paid to the dealer either at the time the note is liquidated by the purchaser of the car or, in the case the purchaser fails to meet his obligation, the dealer is given the benefit of the reserve credit through a corresponding reduction in his liability to the finance company. It follows, therefore, that the reserve credit to the dealer is an absolute credit by the finance company and is payable to the dealer without limitation, regardless of whether the obligation is liquidated by the purchaser (who is the maker of the note) or by the dealer (who is the endorser thereof).

"In view of the foregoing it is concluded that the taxpayer—who is the retail dealer—should accrue the income in question at the time the reserve is credited to its account by the finance company."

This memorandum was cited as the basis for the opinion in the case of Shoemaker-Nash, Inc., 41 BTA 417 decided in 1940, wherein the dealer used two finance companies—the C. I. T. Corporation and the General Contract Purchase Corporation. With the General Contract Purchase Corporation it had a special agreement, which provided in part that:

"At any time when said reserve is in excess of 5% of the total amounts unpaid on all accounts theretofore purchased, and is also in excess of $500, such excess may be withdrawn by the dealer . . ."

With the C. I. T. Corporation, a reserve ranging from 1½% to 2% on new and used cars was provided for. The C. I. T. Corporation agreed to pay:

"Three times in each twelve months' period . . . accumulated reserves in excess of 3% of the aggregate unpaid balances on paper purchased . . ."

In his opinion the Board member stated:

"It is apparent that the sale of notes of automobile purchasers to the finance companies was as much a part of the business carried on by the petitioner as the sale of the automobiles themselves . . . and, the petitioner being on the accrual basis, we find nothing in this case to justify the conclusion that the profits from the sale of such notes are not accruable when the notes are sold . . . for although the amount of the reserve credit is not immediately paid and does not become immediately payable, there is no showing that it will not be col-

lectible when due or that its collection in the future is improbable."

In a more recent memorandum opinion of the Board of Tax Appeals entered February 14, 1941, in the case of Ernest G. Beaudry, there was an apparent reversal of this opinion; but in examining this case we find that there was no agreement between the petitioner and the discount company—that the discount company would pay any part of the amount in the "dealer's reserve" account to the petitioner, except such amount thereof as was in excess of 7½% of the amount of the outstanding notes assigned to the discount company by the petitioner, and the discount company did not credit the dealer with any amount not in excess of 7½%. The Board member stressed the distinction between this case and Shoemaker-Nash, pointing out that:

"Of the many distinguishing features between the facts in that case and the facts here, only one need be mentioned. In that case there was an agreement between the dealer that . . . the amount . . . held by the finance company in a reserve account and credited to the dealer would be paid to the dealer. Here there was no such agreement.

"In the instant case there was no agreement or obligation of the discount company to pay at any time the balance in the dealer's reserve account . . . and it was only in the event that the amount of the dealer's reserve account exceeded such 7½% that the discount company was obligated to pay and petitioner had the right to ever receive any portion of the amount embraced in that account.

"Therefore the right to receive has not arisen and no income had accrued."

It would seem, therefore, that this later case was determined on a set of facts applicable only to this case.

Excess-Profits Tax

The excess-profits tax, from a technical standpoint, does not affect the automobile dealer any greater than the average small business which finds that profits are increasing abnormally in direct relation to the uncertainties of the present day.

Aside from reconciling ourselves to the fact that if large profits are made large taxes must be paid, there is only one vexatious problem for the automobile dealer which arises in the preparation of the excess-profits tax return in support of the invested capital credit. This is the requirement that the borrowed invested capital be computed on the basis of daily balances. Determining the daily balance of borrowed invested capital where the loan is on the basis of a 30-, 60-, or 90-day note is simple for the average business firm. However, in the automobile business, every car purchased represents a new note payable, and every car sold requires the immediate payment of the applicable note. This is of course not true of the dealer company which has large cash balances available, or a large standing credit at the bank to enable them to purchase cars outright; but the majority of dealers finance their new cars, and many dealers finance their used cars.

In most cases, therefore, there is a daily variation in the balance of borrowed capital, which must be tabulated to determine the average daily balance for purposes of the excess-profits credit. The accountant should provide his client with a means of keeping a record of the daily balances of notes payable for this purpose, and it is recommended that it be started right from the beginning of the year and be maintained daily for the current year. Last year the law required the information after the greater part of the year had passed, and in many

instances it required clerical analysis to determine the amounts.

It would seem that the requirement for the determination of the daily balance in such cases is unreasonable and that, for all practical purposes, the average of the month-end balances should be sufficient. The committee in charge of tax legislation in Washington has evidenced an earnest desire to simplify the requirements of the excess-profits tax law, and the recommendations of many accountants has been solicited since the law was enacted. It is suggested, therefore, that the members of the Society keep this in mind in making recommendations to the Committee, so as to include a recommendation for the simplification of this provision.

SECURITIES AND EXCHANGE COMMISSION

Accounting Series Release No. 26, July 1, 1941

The Securities and Exchange Commission today made public an opinion in its Accounting Series relating to the requirements of Regulation S-X as to the analysis of a registrant's surplus account. The opinion states that such analysis may not be omittted although, under special conditions set forth in a particular form, a registrant is permitted to file in lieu of its individual profit and loss statement a consolidated profit and loss statement for the registrant and certain totally-held subsidiaries.

The opinion, prepared by William W. Werntz, Chief Accountant, follows:

"You inquire whether the instruction relative to an analysis of surplus set forth in paragraph 34(b) of Rule 5-02 of Regulation S-X implies that an analysis of the registrant's surplus accounts may be omitted when, pursuant to instructions such as those set forth under Item 8-I-A (2) (a) in the instruction book for Form 10-K, there may be filed in lieu of an individual profit and loss statement of the registrant, a consolidated statement of the registrant and certain totally-held subsidiaries. The portion of the above instruction here pertinent reads as follows:

'*Provided, however,* That in lieu of such profit and loss statement there may be filed a profit and loss statement consolidating the accounts of the registrant and one or more of its subsidiaries (hereinafter called "included subsidiaries"), if all the following conditions exist:

(i) The registrant is primarily an operating company;

(ii) Other than directors' qualifying shares, all classes of outstanding securities, other than those evidencing long-term or funded debt, of the included subsidiaries are owned in their entirety by the registrant and/or the included subsidiaries;

(iii) No one of the included subsidiaries owes to any person other than the registrant any long-term or funded debt of an amount which is significant in relation to the particular subsidiary;

(iv) The included subsidiaries are, in practical effect, operating divisions of the registrant; . . . '

"The above permission, you will note, extends only to the registrant's profit and loss statement and does not permit the omission of the registrant's balance sheet. Therefore, pursuant to such instructions, it would be permissible to omit supplementary schedules required to be filed in support of detailed items in profit and loss statements; but it would not be permissible to omit schedules required to be filed in support of particular balance sheet items, nor to omit analyses of the surplus accounts appearing on such balance sheet. Such balance sheet schedules and analyses should be filed for each period covered by the substituted consolidated profit and loss statements.

"Item 34 (b) of Rule 5-02 of Regulation S-X to which you specifically refer reads in part as follows: 'An analysis of each surplus account setting forth the information prescribed in Rule 11-02 shall be given for each period for which a profit and loss statement is filed . . . ' As indicated in its preface, Regulation S-X relates to the form and content of financial statements, while the instructions to the applicable forms determine what financial statements are to be filed. The cited portion of Item 34 (b) of Regulation S-X must therefore be read in the light of the pertinent instructions, in the applicable form, as for example those quoted from Item 8 of Form 10-K.

"Accordingly, it is my opinion that the language of Item 34 (b) should be considered as indicating the period or periods for which the required information must be set forth and may not be construed as permitting the omission of an analysis of the registrant's surplus accounts."

Authors of Articles In This Issue

HON. JOSEPH C. O'MAHONEY, LL.B., LL.D., U. S. Senator from Wyoming, author of "The Significance of the TNEC Study," was appointed by President Roosevelt in 1938 to be Chairman of the Temporary National Economic Committee, formed for the purpose of making "a full and complete study and investigation with respect to the concentration of economic power in, and financial control over, production and distribution of goods and services." Senator O'Mahoney, a lawyer by profession (LL.B., Georgetown University, School of Law—1920), was appointed to the U. S. Senate in 1933 in the place of the late Senator Kendrick of Wyoming, and in 1934 was elected to both the unexpired term and the full term extending to January 3, 1941. In November, 1940 he was re-elected to serve as Senator from Wyoming until January 3, 1947.

* * * *

SAUL LEVY, C.P.A., author of "Accountants' Relationship with Lawyers," was graduated from New York University School of Commerce, Accounts and Finance in 1916 with a B.C.S. degree, and from the Brooklyn Law School of St. Lawrence University in 1921 with the degree of LL.B. He is a certified public accountant of both New York and New Jersey, and the newly elected second vice-president of The New York State Society of Certified Public Accountants, being also vice-chairman of its Committee on Public Relations. Mr. Levy was admitted to the Bar of the State of New York in 1922 and is a member of the New York County Lawyers Association since 1922. He has been a member of this Society since 1916, during which time he was active on a number of its committees, including the chairmanship of the Committee on Violations of the C.P.A. Law. From 1936-1941 Mr. Levy served as a director of the Society.

* * * *

EDWIN E. LEFFLER, C.P.A., author of "Audit Procedure on War Department Construction Contracts," graduated from New York University, and has been a member of The New York State Board of Certified Public Accountant Examiners since 1929. He has been a member of this Society since 1923, and was President of the Buffalo Chapter from 1930-31. Mr. Leffler has also been a member of the American Institute of Accountants and its predecessor organizations since 1919, and formerly was Chairman of the Association of Certified Public Accountant Examiners. At present he is serving in the Quartermaster General's Office of the War Department as Chief of the Final Settlements Unit, Constructing Quartermaster's Division.

* * * *

BENJAMIN L. ENLOE, C.P.A., author of "Extent of Interim Work Acceptable for Year-End Examinations—From the Viewpoint of the Larger Client," received a B.C.S. degree in 1924 from the Washington University in St. Louis, Mo. Mr. Enloe is associated with the firm of Price, Waterhouse & Co., Buffalo. He has been a member of The New York State Society of Certified Public Accountants since October, 1938, and is now president of its Buffalo Chapter. Mr. Enloe has also been a member of the American Institute of Accountants since 1928.

* * * *

MAYNARD W. LOCKWOOD, C.P.A., author of "Interim Work Acceptable for the Year-End Examinations—From the Viewpoint of the Smaller Client," graduated from the University of Buffalo in 1936. He is associated with the firm of Meech, Harmon, Lytle and Blackmore, Buffalo. Mr. Lockwood is a member of The New York State Society of Certified Public Accountants since March, 1939, and is at present Secretary of the Buffalo Chapter of the Society.

* * * *

GEORGE E. BENNETT, C.P.A., author of "Corporate Financial Report Content of Interest to Employees," is a partner of the firm of Morton & Bennett of Syracuse, N. Y. Mr. Bennett is Professor of Accounting of Syracuse University and is at present vice-chairman of the New York State Board of Certified Public Accountant Examiners. He has been a member of The New York State Society of Certified Public Accountants since November, 1922, and is also a member of the American Institute of Accountants since 1924. Mr. Bennett was president of the Syracuse Chapter of the Society from 1934-36, and is now president of the National Accounting Fraternity of Beta Alph Psi.

* * * *

WILLIAM L. DONOHUE, C.P.A., author of "Tax Problems of Automobile Dealers," graduated from New York University with a B.C.S. degree in 1933. He is associated with John W. Stokes, New York City. Mr. Donohue has been a member of The New York State Society of Certified Public Accountants since 1935, and has served on its Committee on Automobile Dealers' Accounting since 1935.

Subscription

NEW YORK CERTIFIED PUBLIC ACCOUNTANT

•

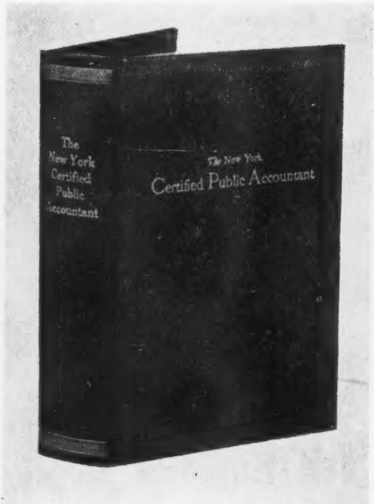
Three Dollars Annually

•

Office of the

NEW YORK STATE SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

15 East 41st Street
New York City



BINDERS

for

CURRENT ISSUES

of

THE NEW YORK CERTIFIED PUBLIC ACCOUNTANT

$1.50

Made of dark brown Fabrikoid, gold stamped

•

Available at the Office of the Society

PRINTED IN U. S. A.